

# POLAND, HUNGARY, THE WORLD

Selected Aspects of Contemporary Economy, Culture, and Science



ACTA ACADEMIAE MODREVIANAЕ

# POLAND, HUNGARY, THE WORLD

Selected Aspects of Contemporary Economy, Culture, and Science

ed by

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## Contents

|   |    |
|---|----|
| <i>Editors' Introduction</i> .....  | 7  |
| <br>  |    |
| Anna Paterek<br><i>European Union in the face of the challenges of the international<br/>financial crisis</i> .....   | 13 |
| Barnabás Szilágyi<br><i>The study of the elements of the different organizational cultures<br/>in Hungary</i> .....   | 25 |
| Rajmund Mydel<br><i>Regional differentiation and changes in manpower in the period<br/>2000–2050 in the light of forecasts of world demographic trends</i> .. | 31 |
| Csilla Juhász<br><i>Changes in the compensation management of human resources<br/>in Hungary between 1998 and 2008</i> .....                                  | 43 |
| István Zsolt Gerda<br><i>Factors affecting the unemployment rate of the Northern Great<br/>Plain region</i> .....   | 49 |
| Judit Kerülő<br><i>The problems of integration and segregation in Hungary</i> .....   | 63 |
| Magdolna Lácza, Zoltán Riczu<br><i>The Jewry of Szabolcs and achievement of middle-class status<br/>in the Reform period</i> .....                            | 83 |
| Réka Csutkai<br><i>The causes and possible handling of labour bottleneck at the large<br/>companies of the North-Alföld Region</i> .....                      | 91 |

|   |     |
|---|-----|
| Klemens Budzowski   |     |
| <i>Prices and pricing strategies in the international market .....</i>  | 99  |
| Małgorzata Czermińska   |     |
| <i>The elimination of barriers to the movement of goods within<br/>common European Union market with a special emphasis<br/>on the abolition of fiscal barriers .....</i> | 111 |
| Wojciech Zysk   |     |
| <i>The world financial crisis as an opportunity of foreign direct<br/>investment inflows to the countries of Central<br/>and Eastern Europe .....</i>                     | 127 |
| Marcin Lason  |     |
| <i>European Neighbourhood Policy and the Eastern Partnership<br/>as a tool of the EU Neighbourhood Policy .....</i>   | 135 |
| Zoltán Balogh   |     |
| <i>Euroregions as a form of transnational cooperation: Case studies<br/>from Central and Eastern European countries .....</i>   | 149 |
| Katalin Dancsi  |     |
| <i>East Central Europe's preparation for Schengen membership:<br/>a turn toward a Schengen curtain .....</i>  | 155 |
| Beata Molo  |     |
| <i>Germany's role in shaping the EU's energy security at the end<br/>of the first decade of the twenty-first century .....</i>  | 165 |
| Imre Egri   |     |
| <i>International Logistical Trends .....</i>  | 177 |
| Gergely Nagy  |     |
| <i>"PPP" investments – inspection and qualification .....</i>   | 183 |
| Ágnes Bilanics  |     |
| <i>A study of management tasks and functions in agro-economic<br/>organisations .....</i>   | 205 |

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|   |     |
|---|-----|
| Miklós Galó, Pásztor Szabolcs   |     |
| <i>The effect of regional differentiation on the application<br/>of relationship methods</i> .....  | 213 |
| Miklós Galó   |     |
| <i>Analysis of direct and indirect effects in the multiplical stochastic<br/>relationship</i> ..... | 221 |
| Zoltán Szakál   |     |
| <i>Marketing and tourism analysis of the wine specialities<br/>of the Tokaj wine region</i> .....   | 235 |
| Dóra Kárpáti Barabásné  |     |
| <i>The effect of emotional problems on the youth's drug<br/>consumption</i> .....                   | 243 |



## Editors' Introduction

This book aims to sum up the achievements of the cooperation between the Andrzej Frycz-Modrzewski University and the College of Nyíregyháza, mostly its Faculty of Economy and Social Sciences. This is not only a summary or chronicle of the cooperation but the authors also made their contributions to find our place in the World.

First of all, as a starting point we have to locate our region and find a definition for it. How do others classify our countries? Central Europe? Eastern Europe? Central and Eastern Europe?

These questions were simply non-existent before 18<sup>th</sup> century. Before that time, the people of these two countries fought their wars to defend their nation, culture, language and religion. Many times the Polish and the Hungarians fought under the same flag. Inter-marriages of Polish and Hungarian dynasties made the relations even closer. The symbol of this relationship is the saying cited above.

Theoretical debate to define this region started in the 19<sup>th</sup> century. The easiest answer would be Central Europe. However, different scholars have taken into account different approaches such as cultural, religious, geopolitical and social approach. This complexity made the easy answer a lot more differentiated and difficult.

From 1820 onwards the term Eastern Europe was linked to the Russian Empire. After the Crimean wars, this classification became common across Europe. This led to the emergence of the Mittel-Europa concept. In this German concept the Eastern frontier was considered as given and the Germans included themselves as the westernmost country of this newly created regional concept.

Geographers, on the other hand, had some serious difficulties to handle this large area. Some of the maps included the Benelux states in this area while others

did the same with the Balkans. It became clear that Mittel-Europa between the Rhine and the Volga rivers is not a geographical term but the framework of the German politics in their struggle for European influence.

The Mittel-Europa concept could not turn into reality as long as the Austro-Hungarian Monarchy existed. After World War I was over, there were other geopolitical powers to prevent the concept from being a fully exercised.

Oscar Halecki's – the famous Polish historian's – lecture held in Brussels in 1923 started a new debate on the region ceasing the former German approaches. Halecki excluded Russia from Eastern Europe. This new classification was accepted by Hungarian and Czech scholars. The Eastern-Western debate shifted from geography to social sciences, culture, and economic development. István Bibó and the geographer, politician and aristocrat Pál Teleki shared these views in Hungary among other influential scholars. They refrained from the usage of the ill-fated term "Central Europe". Instead of that their concept was that this region is the easternmost part of Western Europe.

In the 1930's the regaining German imperial ambitions made it again very difficult to find a sole definition for the region. A plan that had the Vistula, the Danube and the Rhine under the same rule was simply unacceptable for the countries involved. This ambition was again stopped but our region became part of another imperial influence zone. Leading scholars of the new Hungarian historiography protested against this new Soviet-type classification. Domokos Kosáry held in 1941 that Hungary belonged to an Eastern Europe without Russia. In the 1970's, Jenő Szűcs came to the same conclusion based on a complex analysis of cultural history but their struggle was proven ineffective.

By the 1970's and 1980's, even German scholars had accepted that any approach that tries to define Central Europe as a single, one-dimensional entity will not lead to any result but further debates.

In the new debates, the terms Central Europe and the more differentiated Central and Eastern Europe no longer symbolized an imperial threat.

The current regional debates revolve around different issues. What characteristics described these countries in the feudalism? When and how did the bourgeois development take place? These debates brought the first studies to explore characteristics originating even from the antiquity. The former approach comparing the development status of Western and Eastern Europe is still used.

Both Polish and Hungarian scholars share the view of their forebears that the people of Central and Eastern Europe formed this area into a region of European and Worldwide importance. Some ages forced them to be leaders of grand deeds.

In the peaceful ages they worked on to build cities of glorious past and unique spirit. This region is a flourishing scene of culture based on its ethnical, cultural and religious diversity.

To prove this point, this book is a collection from a wide range of topics. However, all authors contribute to the better understanding of the still running debate on the region, now within the European Union. The authors express their gratefulness to the publishers, the heads of the Andrzej Frycz-Modrzewski University.



ANNA PATEREK

## European Union in the face of the challenges of the international financial crisis

### **Introductory comments**

The crisis in the U.S. mortgage market and its impact on the real sphere of the economies of the European Union forced the Community institutions to take coordinated actions to strengthen the stability and transparency of financial markets. On the one hand, there have been proposals to strengthen economic and political supervision of financial institutions at EU level, on the other hand, the Member States concentrated their efforts on protecting their banking sector, which thereby intensified the tendency to re-nationalization and protectionism in the area of economy. At the same time, the European Union's role in managing the financial crisis consisted, to a larger extent, in spurring incentives and coordinating the Member States. The thesis of this analysis is based on the assumption that the EU's effectiveness in responding to the challenges of global financial markets depends on consistent activities of the Member States that go beyond the national strategies of crisis management, and thereby forming the European Union's response to threats of the international economy. On account of modest frames of this article, it focuses only on such selected aspects of the problem in question which – from the perspective of assumed theses – were deemed most crucial.

This study is based on a comprehensive selection of source materials, primarily documents of the EU institutions, which define the objectives of the Euro-

pean Union's anti-crisis strategies<sup>1</sup> and a number of studies and the expertise of German research centres<sup>2</sup>, as well as English<sup>3</sup> and Polish<sup>4</sup> publications touching upon indicated problems.

### **General framework and instruments of Community actions**

The European Union anti-crisis activity focuses primarily on monitoring the observance of the rules of free competition, coordination of auxiliary activities at the EU level and the formation of regulatory arrangements in the area of, inter alia, supervision of institutions and financial services.

A direct manifestation of the economic crisis was the decline in GDP in the EU, which in the third and fourth quarters of 2008 amounted to 0.2% and 1.5% respectively<sup>5</sup>. According to the European Commission's spring forecast for the period 2009–2010, the situation gradually returned to equilibrium, primarily through the implementation of fiscal and monetary stimulus measures. It is expected, at the same time, that GDP in the EU and in the Euro area will decrease in 2009 by 4% and that it will be stabilised in 2010. In 2009, the Commission forecast that the volume of GDP in the largest EU countries will be smaller: by about 5.5% in Germany, 4–4.5% – in the UK and Italy and by about 3% in Spain and France<sup>6</sup>. As the form of assistance to the banking sector, the Member States have already allocated around 1.48 billion Euro and in the period 2009–2010 the financial means launched as a part of economic packages can amount to 1.8% of GDP. The effect of the latter activities, however, is the increase of the budget deficit and public debt. More than double increase in the deficit was predicted in 2009 (from 2.3% of GDP in 2008 to 6%), and in 2010 its increase to more than 7% of EU GDP. By contrast, the debt could rise to 72.6% in 2009 (from 61.5% in

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<sup>1</sup> EU documents are available on the websites, including <http://www.eur-lex.europa.eu>; the European Commission: [http://ec.europa.eu/economy\\_finance/focuson/focuson13254\\_en.htm](http://ec.europa.eu/economy_finance/focuson/focuson13254_en.htm); the European Parliament <http://www.europarl.europa.eu/parliament/expert/staticDisplay.do;jsessionid=E53F619D1B913CE28CCBAF59D4B1E4FB.node1?language=PL&refreshCache=yes&pageRank=4&id=40>; [http://europa.eu/press\\_room/press\\_packs/crisis/index\\_de.htm](http://europa.eu/press_room/press_packs/crisis/index_de.htm).

<sup>2</sup> Analyses and expertise, e.g.: Stiftung Wissenschaft und Politik: <http://www.swp-berlin.org/de>; Konrad-Adenauer-Stiftung: <http://www.kas.de>; Zentrum für angewandte Politikforschung CAP: <http://www.cap.uni-muenchen.de>; Institut für Europäische Politik: <http://www.iep-berlin.de/index.php?id=201>.

<sup>3</sup> For example reports of the International Monetary Fund: <http://www.imf.org>, <http://www.euroactiv.com>.

<sup>4</sup> Including reports and analyses of the Centre for Eastern Studies: <http://www.osw.waw.pl>; Office of the Committee for the European Integration: <http://www.ukie.gov.pl>; the Polish Institute of International Affairs: <http://www.pism.pl>.

<sup>5</sup> M. Koczor, 'Tackling the economic crisis in the European Union – the results of informal summit of 1 March 2009', Bulletin of the Polish Institute of International Affairs no. 13, 4 March 2009, [http://www.pism.pl/biuletyny/files/20090304\\_545.pdf](http://www.pism.pl/biuletyny/files/20090304_545.pdf); M. Koczor, 'Financial and economic crisis as a challenge for the Swedish EU Council Presidency', Bulletin of the Polish Institute of International Affairs no. 39, 1 July 2009.

<sup>6</sup> European Commission, Economic Forecast, Spring 2009, European Economy 3/2009; [http://ec.europa.eu/economy\\_finance/publications/publication15048\\_en.pdf](http://ec.europa.eu/economy_finance/publications/publication15048_en.pdf), pp. 1–2.

2008) and achieve 79.5% in 2010 (in the Euro area from 69% in 2008 to nearly 84% in 2010)<sup>7</sup>.

Recession has also affected the EU labour market. The European Commission expects to reduce employment by about 2.5% in 2009, both in the EU and in the Euro area and by 1.5% in 2010, which will result in the loss of 8.5 million jobs in 2009–2010, in contrast to 9.5 million of new jobs that were created during the period 2006–2008. The consequence of these processes will be the increase in the number of unemployed to about 11% in 2010 (11.5% in the Euro area), namely by 1.5 pp more, compared with the forecast of January 2009<sup>8</sup>.

Activities of the European Union, therefore, are determined by the necessity to define the strategies of combating crisis, which is the most dangerous recession of international economy since the Second World War<sup>9</sup>. They are thus of a short- and long-term character. The former aim to guarantee the current liquidity in banking markets, the manifestation of which was, *inter alia*, the act of launching by the European Central Bank in August 2007 hundreds of billions of Euro in loan funds for banks (after the bankruptcy of Lehman Brothers – 30 billion Euro)<sup>10</sup>. Apart from supporting market liquidity in the individual Member States (including, in 2008, 5 billion Euro for the Bank of Hungary), on the 8<sup>th</sup> October 2008, the European Central Bank, along with the Fed, the Bank of Japan, Switzerland and UK, cut interest rates by 50 basis points (the first time since 2003). In March 2009, responding to severe recession trends in the Euro area, the ECB decreased the main interest rate to 1.5 percent, and then in April and May to 1 percent – the lowest level since the single currency has been introduced. In turn, the European Investment Bank allocated 15 billion Euro in the period 2008–2009 (30 billion by 2011) for loans for small and medium-sized enterprises<sup>11</sup>.

Long-term measures taken at Community level are primarily subordinated to more efficient management of the crisis in financial markets and they aim to strengthen the mechanisms for ensuring their stability. On the 9<sup>th</sup> October 2007, the Economic and Financial Affairs Council (ECOFIN) adopted the principles of cooperation between Member States in preventing slumps in the financial sector and it presented the timetable for their implementation<sup>12</sup>. What has become a priority was the protection of the stability of the financial system in the Member States and the whole EU as well as reduction of potential negative consequences for the

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<sup>7</sup> *Ibidem*, pp. 3–4.

<sup>8</sup> *Ibidem*, p. 2.

<sup>9</sup> *Ibidem*, p. 4.

<sup>10</sup> A. Gradziuk, M. Koczor, 'The European Union and the crisis in U.S. financial market', *Bulletin of the Polish Institute of International Affairs* no. 45 (513) 25 September 2008; M. Koczor, 'Tackling the financial crisis – actions of the European Union', *Bulletin of the Polish Institute of International Affairs* no. 55 (523) 20 October 2008.

<sup>11</sup> M. Koczor, 'Tackling the financial crisis...', *op. cit.*

<sup>12</sup> [http://www.consilium.europa.eu/uedocs/cms\\_data/docs/pressdata/de/ecofin/96628.pdf](http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/de/ecofin/96628.pdf), p. 23.

European economy rather than preventing bankruptcy of individual banks. The criterion for the allocation of public funds by the Member States would primarily be a serious threat to the stability of the economy, what is more, their allocation was to be undertaken according to strict and uniform conditions. In addition, the interventions in question were made to be limited in time, aim at protecting the taxpayers and the rules of free competition within the EU uniform market. What was also taken into account was the possibility of changing the management and the impact on its emolument in the institutions which received support<sup>13</sup>. Following this, in April 2008, the representatives of central banks, supervisory authorities and finance ministries concluded an agreement (Memorandum of Understanding) committing all signatories to conduct cross-border cooperation, both in normal circumstances, in order to ensure readiness for managing potential situation of cross-border crisis, as well as in actual crises situations<sup>14</sup>.

Other important findings for improving the condition and stability of the financial system have been taken at a meeting of the ECOFIN Council of 7 October 2008. The possibility of capitalising financial institutions in difficult situation was also indicated, however, on condition that decisions about public intervention would have to be carried out at national level in a coordinated framework and on the basis of the Community rules<sup>15</sup>. On 12 October 2008 the leaders of Euro zone countries adopted the “Declaration on a concerted European action plan of the Euro Area countries” which was subsequently approved in the Council conclusions of 15–16 October 2008<sup>16</sup>. Heads of State or Governments stressed that domestic support measures should be consistent with the principles of Community competition policy, the latter, in turn, should be applied flexibly in conditions of recession<sup>17</sup>. It was thus determined that common rules of intervention on the national level cannot adversely affect the functioning of the single market and the other Member States. Furthermore, having regard to the priority of restoring confidence and proper functioning of the financial sector, the Member States agreed to raise minimum deposit guarantee from 20 to 50 thousand Euro for a period of at least one year, in accordance with the provisions of the ECOFIN Council of 7 October 2008. In order to increase the convergence of the guarantee system, on 15 October 2008 the European Commission submitted proposals to amend the directive on deposit-guarantee scheme, raising the target limit of

<sup>13</sup> *Ibidem*, p. 26; A. Gradziuk, M. Koczor, ‘The European Union...’, *op. cit.*

<sup>14</sup> The text of the understanding is available on the website: <http://www.nbp.pl/home.aspx?f=/system-finansowy/mou.html>.

<sup>15</sup> Including such issues as temporary nature of the support; protection of taxpayers’ interests; governments’ impact on the structure and remuneration of the management of financial institutions which receive support; protection of the legitimate interests of competing institutions, [in:] <http://register.consilium.europa.eu/pdf/pl/08/st13/st13947.pl08.pdf>, <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:2008:270:0008:0014:PL:PDF>.

<sup>16</sup> See the text of the Declaration of 12 October 2008, available on the website of the French Presidency of the Council of the European Union: [www.ue2008.fr](http://www.ue2008.fr).

<sup>17</sup> [http://www.consilium.europa.eu/ueDocs/cms\\_Data/docs/pressData/PL/ec/103448.pdf](http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/PL/ec/103448.pdf).

a minimum guarantee of one year from 20.000 to 100.000 Euro (it came into force in March 2009)<sup>18</sup>, as well as guaranteeing the repayment of all deposits not exceeding the abovementioned amount. The European Council also decided to introduce a non-formal warning mechanism, the system of exchange and assessment of information, namely the financial crisis management board consisting of the representatives of the State which acts as a chair of the Council, the President of the European Commission, the President of the ECB, the President of the Eurogroup and the governments of the Member States<sup>19</sup>.

Public help offered to banks is regulated in the Community guidelines on state aid for rescuing and restructuring firms in difficulty, adopted in November 2004<sup>20</sup>. They provide, inter alia, that this kind of support can be given on a one-off basis, it must not distort competition to the extent contrary to the interests of the Community, it has to be returned, and it must be limited in time to six months. Due to a high degree of integration and interdependence of the European financial markets and the scale of domestic support for the banking sector, on 13 October 2008 the European Commission presented detailed assumptions concerning the compatibility of activities which support the financial sector with the EU rules on state aid. In particular, these guidelines defined the criteria for a support in the form of state guarantees. The Commission emphasized, inter alia, the need to limit the amount and intensity of such aid to a minimum, the need to introduce mechanisms which would allow to reduce distortions of competition and potential abuse by the beneficiaries of preferential treatment afforded by the state guarantee, non-discriminatory nature of public assistance and the possibility to extend its provision for more than six months, as long as it is necessary due to the ongoing financial crisis<sup>21</sup>.

On 26 November 2008, the European Commission presented a framework for the EU's strategy in its Communication on the European Economic Recovery Plan, then approved by the European Council on 11–12 December 2008. The priority of the European Union was to achieve economic recovery in the Member States through:

- a new organization of the financial market at Community level;
- reducing the consequences of the crisis on the real economy;
- a global response to financial crisis<sup>22</sup>.

The leaders of the Member States reached a compromise on the implementation of the European Commission's proposals. Uncertainties related to the consequences of the implementation of the EU's programme for budgetary stability

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<sup>18</sup> [http://ec.europa.eu/internal\\_market/bank/docs/guarantee/200914\\_en.pdf](http://ec.europa.eu/internal_market/bank/docs/guarantee/200914_en.pdf).

<sup>19</sup> <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2008:0661:FIN:PL:PDF>.

<sup>20</sup> [http://www.uokik.gov.pl/pl/regulacje\\_prawne/polskie\\_i\\_wspolnotowe\\_akty\\_prawn/pomoc\\_publiczna/wspolnotowe\\_akty\\_prawne/#pytanie4](http://www.uokik.gov.pl/pl/regulacje_prawne/polskie_i_wspolnotowe_akty_prawn/pomoc_publiczna/wspolnotowe_akty_prawne/#pytanie4).

<sup>21</sup> <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:2008:270:0008:0014:PL:PDF>.

<sup>22</sup> [http://www.itb.pl/files/itb/zrownowazone\\_budownictwo\\_17.pdf](http://www.itb.pl/files/itb/zrownowazone_budownictwo_17.pdf).

of the Union were primarily expressed by Germany, the Netherlands, Poland and Sweden<sup>23</sup>. Having the latter in mind, the European Council announced that the countries which – as a result of stimulating activities – exceeded budget deficit set in the Stability and Growth Pact, would take – in the course of economic recovery – appropriate steps leading to its reduction<sup>24</sup>.

The proposed economic recovery plan for 2009–2010 included 200 billion Euro, equivalent to 1.5% of EU GDP, out of which the Community funds were to constitute 30 billion Euro, while the rest was to be provided by the involvement of the Member States (about 170 billion). The amount of 5 billion Euro was earmarked for supporting the European automotive sector, which was most severely affected by the economic crisis. The European Council stressed the importance of coordinated recovery action both in order to restore the smooth functioning of the financial system as well as the credibility of financial institutions. The national budgetary resources were to stimulate demand and purchasing power, thereby restoring the confidence of consumers. Some of the incentives aimed to contribute to the achievement of the abovementioned objectives were as follows: tax cuts (including the possibility of lower VAT rates in certain sectors)<sup>25</sup>, reduced administrative burden for companies, insurance premiums, loan guarantees and subsidies (targeted at strategic economy sectors which have been most severely affected by the crisis). Correction mechanisms triggered by the Member States were to be limited in time, aiming for rapid achievement of assumed objectives, as well as tailored to the specific economic problems of a particular country. What constitutes the priority of the EU plan in the long run is to implement structural reforms under the Lisbon Strategy, in order to increase European competitiveness. These reforms will focus on ten key actions including, inter alia, supporting entrepreneurship, innovation, research and development, offsetting the negative effects of the crisis on labour markets, promoting employment, facilitating access to capital for businesses, promoting organic products, the development of “clean technologies” in order to support the construction and automotive sectors in the transition to a low carbon economy, improving energy security, developing energy infrastructure and broadband communication<sup>26</sup>.

Implementation of crisis response plans in the Member States entailed the basic risk associated with increasing budget deficits. What was therefore considered crucial in preventing further growth of public spending, as a consequence of complying with the requirements of the Lisbon Strategy, were the criteria laid down in the Stability and Growth Pact, as well as the role of the European Commission.

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<sup>23</sup> M. Koczor, ‘EU coordination plan for economic recovery’, Bulletin of the Polish Institute of International Affairs, 17 December 2008.

<sup>24</sup> [http://www.consilium.europa.eu/uedocs/cms\\_data/docs/pressdata/PL/ec/104708.pdf](http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/PL/ec/104708.pdf).

<sup>25</sup> With the effect from 1 December 2008, the United Kingdom reduced VAT by 2.5% to 15% in order to revive the economy.

<sup>26</sup> [http://www.consilium.europa.eu/uedocs/cms\\_data/docs/pressdata/PL/ec/104708.pdf](http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/PL/ec/104708.pdf); <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2008:0706:FIN:PL:PDF>.

### **Member States' response to the crisis of the financial sector**

Informal meeting of Heads of State or Government of the Member States on 1 March 2009, focused the activity of the Community institutions on minimizing risks of protectionist practices in response to the crisis in the financial sector. What was particularly emphasised was the importance of coordinated crisis response operations in accordance with the internal market, the need for cooperation to support the automotive industry and developing an approach to financial assistance in new Member States. At the same time, EU leaders have expressed their opposition to protectionist action, prejudicial to the rules of the single market and, having regard to the latter, they stressed the role of the European Commission “as the guardian of the Treaty”<sup>27</sup>.

The financial crisis triggered off protectionist mechanisms in the field of the European economy. What has become the symbol of the latter was a French project of the aid for the automotive industry, making the support of 6 billion Euro for domestic companies conditional on maintaining production in France. This project faced criticism mostly of the new EU Member States. The French government has finally departed from the implementation of the most controversial part of the plan<sup>28</sup>. Similar pattern was followed by, *inter alia*, the governments of Germany, Great Britain and Ireland, which partly nationalized banks through massive financial aid and guarantees. Large scale public aid to crisis-hit sectors also confirmed the thesis of reinforcing the tendency to protect key state industries.

In response to perturbations within the economies, the Member States largely reached for the measures at national level. One example of political dimension of re-nationalization was – forced by France and Germany – a more flexible implementation of the Stability and Growth Pact and its reform in 2005, which allows the possibility of exceeding the reference limit (3%) as regards the budget deficit in exceptionally serious economic difficulties. A growing government intervention, which consists in supporting indigenous enterprises that infringe the mechanisms of internal market rules, constitutes a threat to “dilute” the Community’s competition policy. The collapse of the international financial system became an incentive to return to economic nationalism, despite the lessons learned from the crisis of the 30s. Nationalism and protectionism are not a cure for the global recession, but they only deepen it. At the same time, they may not appoint the basis for further political integration within the EU<sup>29</sup>.

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<sup>27</sup> [http://www.consilium.europa.eu/uedocs/cms\\_data/docs/pressdata/PL/misc/106393.pdf](http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/PL/misc/106393.pdf).

<sup>28</sup> M. Koczor, ‘Tackling the economic crisis in the European Union – the results of the informal summit of 1 March 2009’, *Bulletin of the Polish Institute of International Affairs* no. 13, 4 March 2009, [http://www.pism.pl/biuletyny/files/20090304\\_545.pdf](http://www.pism.pl/biuletyny/files/20090304_545.pdf).

<sup>29</sup> Broadly on this issue see: J. Frasch, ‘Gefahr für den Binnenmarkt’, *SWP Aktuell* 25 May 2009.

In the initial phase of the crisis in September 2008, the governments of the Member States have focused their efforts on protecting home banking sector, providing government guarantees to banks in difficulty. As a result of the latter, *inter alia*, Irish bank deposit guarantee led to the transfer of contributions from other Member States, mostly Great Britain, to the Irish banks, which – in turn – negatively affected the situation of financial institutions in these countries. Chain reaction caused by the decision of Irish authorities eventually led to a more coordinated approach to rescue Eurogroup banks. Nevertheless, the initiative of the French Council presidency of the EU, which involves the creation of stabilization fund providing financial support for endangered banks and businesses, was never implemented, mainly due to concerns of the German government related to the commitment to grant financial help to foreign banks. A proposal to use the crisis in order to strengthen economic and political coordination and formally enhance the significance of the Eurogroup, did not find enough support among the Member States. Similarly, the Hungarian project of February 2009, concerning the establishment of the EU fund in order to support new Member States which were most severely affected by the crisis, was negatively assessed, even by potential beneficiaries of this initiative<sup>30</sup>. In turn, the introduction of the Community's financial supervision raises considerable resistance primarily among the British authorities who denied any transfer of supervisory powers to the EU institutions<sup>31</sup>.

Moreover, the international financial crisis has highlighted the asymmetry in the ability to respond and develop resistance to its effects between the old and new EU Member States. In particular, the consequences of a global recession hit financial markets of Central and Eastern Europe, threatening the stability of the Euro area banking sector<sup>32</sup>. On account of the latter, the role of the European Union came down to develop – in cooperation with the European Central Bank with national central banks – mechanisms of financial support in order to ensure stability and liquidity of financial institutions which were adversely affected by crisis. There are essentially three mechanisms which allow to counter negative effects of the crisis in these countries. As part of the so-called medium-term financial assistance, created in 2002, under Article 119 of the Treaty Establishing the European Community, the states remaining outside the Euro zone can receive credits for maintaining balance of payments. In autumn 2008, the ECOFIN Council increased the amount of funds available under this instrument from 12 to 25 billion Euro, while the European Council at the meeting on 19–20 March 2009 – to 50 billion Euro. The heads of the Member States also stressed that the banks of the

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<sup>30</sup> *Ibidem*, pp. 3–4.

<sup>31</sup> [http://dublin.gazeta.pl/Dublin/1,85170,6728893,UE\\_Na\\_szczycie\\_wybor\\_Barroso\\_i\\_prawne\\_gwarancje\\_dla.html](http://dublin.gazeta.pl/Dublin/1,85170,6728893,UE_Na_szczycie_wybor_Barroso_i_prawne_gwarancje_dla.html) (15.11.2009).

<sup>32</sup> Broadly on this issue see: K.O.Lang, D. Schwarzem, 'Krisen, Crashes und Hilfspakete', SWP Aktuell 12 March 2009.

15 EU Member States should not apply to their institutions practices operating in the countries of Central and Eastern Europe since it may lead to a reduction in their lending capacity. The countries which benefited from credits for balance of payment were Hungary (6.5 billion Euro), Latvia (3.2 billion Euro) and Romania (5 billion Euro), namely these new EU Member States which were most severely affected by the economic recession. Financial support both from the EU and the International Monetary Fund, by providing short-or medium-term credits to offset the public debt, constituted an important tool to restore consumer confidence in the functioning of financial systems. The second form of assistance for the new Member States is the support for the financial sector and real economy. On 26 February 2009, the World Bank, the European Bank for Reconstruction and Development and the European Investment Bank established a package including a 24.5 billion Euro for the period 2009–2010, focused primarily on the provisioning of loans for small and medium-sized enterprises of these states. At the same time, the initiative was aimed at improving the efficiency of international co-ordination between banks, national supervisory bodies and national governments. The third option to stabilize the monetary systems of the new Member States is the prospect of their inclusion in the economic and monetary union, although the argument against early implementation of such a solution is a low real interest rate on these countries' economies, which determines the increase in inflation<sup>33</sup>.

The response of the Member States to the crisis in financial markets implies a tension between national crisis interventions and long-term framework of common economic and fiscal policy. Member States' financial packets lead to a partly significant indebtedness and they are detrimental for the provisions of the Stability and Growth Pact. EC forecasts predict that by 2010 the average budget deficit in the Euro area will amount to 4.8% (Germany 4.2%). It is even believed that in 2010, 17 of the 27 Member States will exceed the allowable limit of budget deficit of 3% of GDP<sup>34</sup>.

It should be also noted that there are multiple controversies related to the implementation of national financial aid programmes in the era of international financial crisis due to the abovementioned clear-cut disparities between the east and west. The new Member States have much more limited capabilities in the extent of financial assistance needed to stimulate their economies, as compared with the old Community Members. Poland and the Baltic countries have taken steps to achieve budgetary stability, which had a partly negative effect on the consumer market and which reinforced crisis tendencies. The Czech Republic and Slovakia, whose economy is largely based on the automotive industry, have not been able to provide financial assistance directed to this sector which would be comparable to such Member States as France. In Estonia, Latvia, Czech Republic and Hun-

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<sup>33</sup> *Ibidem*, pp. 6–7.

<sup>34</sup> Broadly on this issue see: W. Weidenfeld, S. Secher, 'Europa Potenziale in der Krise', CAP Analyse, March 2009.

gary, the economic crisis has contributed to political disruption and changes in national governments. Accordingly, the new Member States were characterized by a more sceptical attitude towards subsidies, by means of which richer EU countries supported their economies<sup>35</sup>. The latter was additionally enhanced by the fact that the populist and protectionist solutions promoted by governments, like President Sarkozy's call for car manufacturers to buy car parts from national suppliers, also reinforce protectionist expectations of societies in these countries, which is manifested by public opinion support for such slogans like "British Jobs for British Workers".

### **Challenges and perspectives of the reform of the EU financial system**

Comprehensive plan of the financial system reform, based on the report of Larosière, the former head of the IMF, was submitted by the European Commission in its Communication prepared for the European Council meeting on 19–20 March 2009<sup>36</sup>. The report of Larosière group<sup>37</sup> focused on the analysis of the forms and methods of supervising institutions and financial markets in the EU, and it constituted the basis for developing a strategy of reinforcing European cooperation in the field of monitoring financial stability, mechanisms of early notification as well as the EU cooperation with global partners. The recommendations included in particular: the creation of a pan-European agency which would control risk and issue early notifications, reinforcing the system of sanctions against too risky operations, creating a more uniform system of regulatory and supervisory rules governing the standards of the EU financial market. As far as Community level was concerned, it was suggested to establish the European Systemic Risk Board which would operate under the auspices of the ECB, headed by the President of the ECB and which would supervise financial system from the standpoint of risk for enterprise stability. What was also pointed out was the need to create three new supervisory agencies (for the issues of banks, securities and insurance). The latter would be established as a part of the new European System of Financial Supervision (ESFS) on the basis of existing low-level committees<sup>38</sup> and they would be composed of the representatives of the national high-level supervision<sup>39</sup>. The role of the three authorities would come down to a legally binding mediation in case of conflicts between national

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<sup>35</sup> Compare: J. Frasch, 'Gefahr...', op. cit., pp. 4–5.

<sup>36</sup> <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2009:0114:FIN:PL:PDF>.

<sup>37</sup> The European Union and the crisis. European Commission Report of 25 February 2009, <http://www.polbrokers.pl/navigation/legislacja/pliki/UniaEuropejskaaKryzysRaportKomisji25.02.2009.pdf>.

<sup>38</sup> The so-called Third Level Committees (CEBS, CEIOPS and CESR – they deal with the implementation of EU funds, the first level concerns coordination at regional and national level, the other relate to project management), which would be converted into three European Agencies – the European Banking Authority, the European Insurance Authority, the European Securities Authority.

<sup>39</sup> At the head of their councils there would be people with the greatest authority, independent of national supervisory institutions.

supervisory authorities (which is not highly welcomed by the UK and Germany, especially since the burden of responsibility for rescuing banks in a crisis situation would still be placed on national governments); the adoption of binding supervisory standards and better coordination of activities in crisis situations. Another suggestion concerned the establishment of the Financial Stability Forum which would bear responsibility for relocating international financial regulations to the highest level, and which would also cooperate with the IMF<sup>40</sup>.

The European Council approved the conclusions of the Summit of 18–19 June 2009, which concerned the idea of establishing the European Systemic Risk Board, as well as establishing the European financial system according to proposals provided by the EC. It was also stressed that the task of “new EU regulatory framework” was to support sound and competitive European markets<sup>41</sup>. At the same time it was agreed that the EC should announce particular legislative proposals in this area in autumn of 2009 at the very latest, so that the new system “became fully effective in 2010”<sup>42</sup>. The summit of Heads of the Member States, which took place on 20 October 2009, resulted in an agreement on the legislative proposals concerning the establishment of the European Systemic Risk Board and it was announced that the final arrangements regarding a complete package of establishing a new EU supervisory structure will be taken at the Council meeting in December<sup>43</sup>.

In its communication on a “Shared Commitment for Employment” of 5 June 2009, the EC presented three priorities of the EU strategy on reducing the impact of the crisis on employment, namely the maintenance of employment, creating new jobs and promoting mobility – perceived as a complement of the abovementioned existing EC anti-crisis activities. The emphasis was placed on making full use of available financial resources. The European Commission has announced, *inter alia*, allocation of 19 billion Euro from the European Social Fund to assist in maintaining employment, developing skills, promoting entrepreneurship, improving the efficiency of public employment services. It was also predicted that in the years 2009–2010, there would be a possibility of refunding declared state expenditures in 100%. Together with the funds of other international financial institutions, in particular with the European Investment Bank Group, these funds will be used to create a new EU micro-finance instrument for employment, which will amount to more than 500 million Euro. It will primarily allow for a targeted support for entrepreneurs in relation with reduced availability of credits<sup>44</sup>.

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<sup>40</sup> ‘The European Union and the crisis’, *op. cit.*

<sup>41</sup> [http://www.consilium.europa.eu/uedocs/cms\\_data/docs/pressdata/PL/ec/108653.pdf](http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/PL/ec/108653.pdf).

<sup>42</sup> *Ibidem*.

<sup>43</sup> [http://www.consilium.europa.eu/uedocs/cms\\_data/docs/pressdata/PL/ec/110903.pdf](http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/PL/ec/110903.pdf).

<sup>44</sup> <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2009:0257:FIN:PL:PDF>.

### **Final comments**

An important element of the EU anti-crisis concept is its external dimension, which initiates a debate on the reform of global financial system and takes a leading role in this regard within the G-20. The success of the latter is, however, made conditional on credible and cohesive external presentation of the specific character and advantages of the internal market in the face of the challenges of global crisis.

EU countries have to intensify coordinated efforts in the face of economic difficulties. It seems indispensable in this context to speed up reforms within the Lisbon Strategy. A key instrument in this field is the Stability and Growth Pact which – as a result of a reform in 2005 – allows the possibility of exceeding budgetary deficit in exceptionally serious economic difficulties. The principles contained in the abovementioned Pact should be enforced by the Member States and the Commission should, disregarding a flexible approach, monitor national efforts so that they did not encourage the misuse of exceptional circumstances. The economic slowdown should not be an excuse for a less restricted budgetary policy. The crisis has highlighted the need for a stronger internal integration of the Member States within the EU so that it can have a crucial role in the discussion on the reform of global financial order.

The basis of a proper operation of the internal market is a uniform legal framework and its compliance. The activities of old Member States can be therefore perceived as a peculiar model for the new Member States in this respect. What is more, national subsidies discriminate those countries which cannot, or do not want, to afford such measures of intervention.

BARNABÁS SZILÁGYI

## The study of the elements of the different organizational cultures in Hungary

Keywords: organizational culture, employees' attitude, desirable culture

### **Introduction**

Culture is the attitude mutually accepted by a human community to the most fundamental questions of life, further it is the complex entirety of its values, norms, behaviours, habits based on this attitude and of the abstract and material products made and accumulated by the community. The organizational culture is the complex entirety of the mutually accepted values, the way of thinking used in decision-making, the approaches and procedures, behavioural samples which characterize an organization. It is the system of such expectations, convictions, behaviours which are accepted as obvious and without saying by the members of the organization concerning their behaviour.

The dynamically changing economic environment of the 90s and the new challenges made the companies adapt to be able to remain on the market and pay their attention to the factors, pushed into the background till that time, like the importance of the individual and the organizational culture. At several companies a positive change has started and the study, formation and development of the organizational culture have become the most important elements of the managerial

repertoire recently. More and more companies start to recognize that the organizational culture is not a negligible competitive factor, as the companies compete not only with their products and services but also with their values and culture.

### **Literature**

In the recent thousand years the human resources management of companies will have to cope with new and very important tasks. The external effects and conditions are changing and new tendencies are appearing. Employees are in the focus of managerial interests and they are rather regarded as independent, highly responsible colleagues. Raising requirements is not enough, but companies have to develop their skills and expertise. These tasks should be solved in such cultural environment where the technological, economic, ecological and social conditions are undergoing intensive changes (Berde 2003).

The general human culture consists of some side-cultures and subcultures. The culture of social-economic organizations is one of the very important factors of the social culture. The name 'organizational culture' is not yet integral and general today, expressions like company culture, company ethics, organizational atmosphere, company style are also often used. Beside this naming uncertainty, the differences of conceptual definitions are more relevant. As it is a relatively new concept, it is not surprising that the unity of content has not formed yet. But there is one thing that experts agree on, and it is the importance of organizational culture which is needed to the success of companies. (Bakacsi 2001).

Only those companies which are relatively independent and have existed for a long time, can have such a culture. To form this culture, many mutual experiences of the unit in point are inevitably needed as the mutually shared pre-suppositions can be formed as the result of this experiential and collective learning process. Thus, culture, which has a lot of components and elements, is the product of human coexistence and the work done together.

This culture is not equivalent with the noticeable behavioural characteristics. Even, this culture is not the only explanation of the noticeable forms of behaviour. The behavioural regularities directly catching in the act depend on the culture of the social unit, and other characteristics of the given situation (motivation, power, team-dynamical characteristics, human resources management concept, managerial style). Undoubtedly, there are such repetitive, regularly noticeable behavioural samples, organizational characteristics, which are regarded as the values typical of the organization.

The regularly repetitive ceremonies, the stories going around the company, the used language, the jargon, the visible behavioural samples, the symbols of the organization, the dressing, and the external appearance of the workplace are those characteristics which are also noticeable for external observers. These visible characteristics entail only the conclusion of what values the members of the

organization follow and what they really have in mind. Real culture lies in values, suppositions, beliefs, feelings and attitudes which remain invisible (Barakonyi-Borgulya 2004).

The organizational culture is not equivalent with the qualification of the organizational members but 'professionalism' is said to be able to influence the already-formed culture. Profession-cultures can exist in themselves and inside the organization the cultural characteristics of each specialization can be defined well. The invisible characteristics of this culture are such values, ideologies, feelings, emotions, attitudes which help to understand the visible characteristics. It is about such concepts which determine the targets of the organization, the relationships between teams and individuals, the behaviour of the members of the organization. Most of them are present in the form of principles, rules, norms, morals and ethics, and certainly these also have a great impact on the human resources management of a given organization (Juhász 2004).

### **Studies, Results**

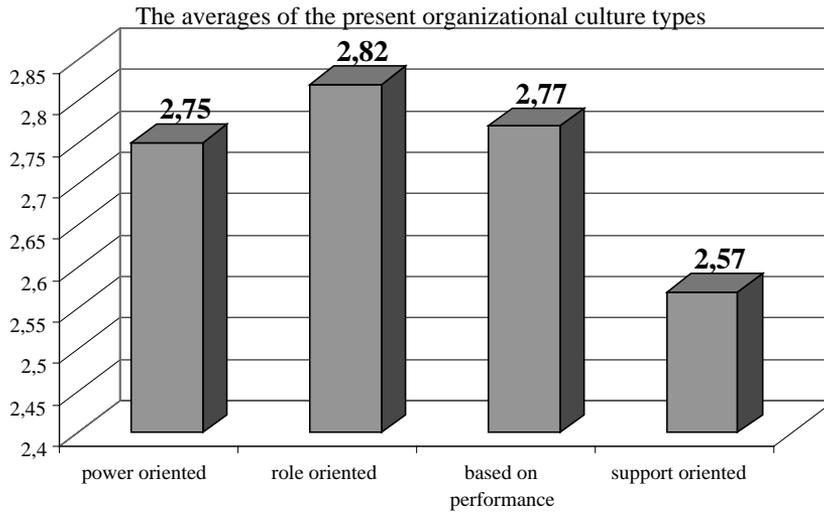
In our studies we studied the organizational culture of agro-economic organizations. The sampling was done by a simple, accidental selection belonging to the methods based on accidental selection. The research geographically took place in four counties and the region of eastern Hungary. Taking into consideration the results, we tried to draw the conclusions of which elements of the organizational culture show some kind of relation and inherence with the employees' attitudes.

To map the organizational culture experienced by the employees working in agriculture, we used the Harrison type of questionnaire. This questionnaire is based on the respective organizational values, as the combination of organizational cultures. All the values can be found at each organization but with different importance, therefore each organization can be characterized by different values.

- power oriented;
- role oriented;
- based on performance;
- support-oriented culture and the characteristics of the studied organizations can be characterized by the combination of the different values.

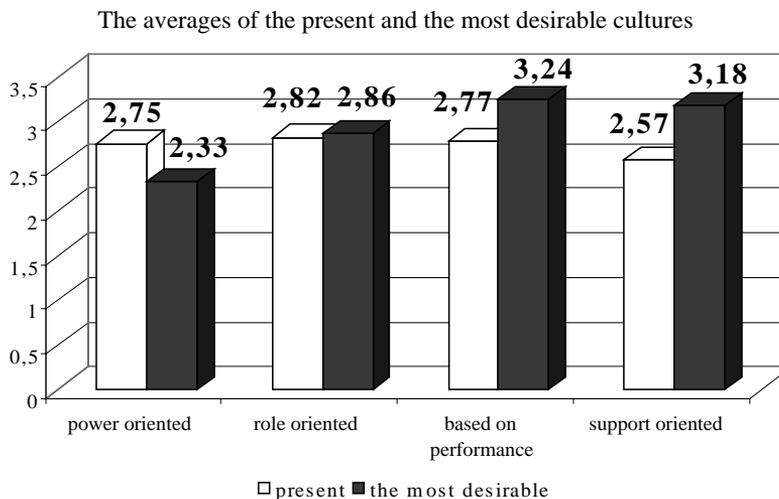
In order to diagnose the organizational culture, the questionnaire contains 15 factors and it consists of such evaluational competence alternatives or items – connected to each factor – which are suitable for the four types of organizational culture shown in detail. The respondents have to evaluate the items based on the existing culture experienced individually (their own data), as well as these items have to be evaluated considering the most desirable culture, that is, what criteria and in what measure the respondents consider important and optimal (expected criteria).

*Bar chart 1.* below, considering the total sample, shows how the respondents see the present-existing values at their organization. Characteristically, the value of the role oriented culture is the highest, on average by 2.82 points, while the support-oriented culture got only 2.57 points considering the total sample.



Bar chart 1: The averages of the present organizational culture types

If we look at the values of the most desirable organizational culture, still considering the total sample, comparing with the present-existing values /*bar chart 2.*/, we can see that the culture based on performance and the support-oriented culture are expected.



Bar chart 2: The averages of the present and the most desirable cultures

To evaluate the present culture, we can claim that this culture ensures the power of the managers, and considering the inquired companies, it is mainly ensured by the system of bureaucratic structures and procedures. The obligations of the individuals and their compensations are exactly determined, the individuals take determined roles.

The values of the Role-orientation: rules, reliability, rationalism, permanence. The well – arranged system of roles (the bureaucracy) – performance, structure and rules – makes the work be done reliably.

The Performance-oriented culture evaluates the act. It aims to create changes. The Performance – oriented organization sets serious requirements towards its employees considering time and energy and its concepts and values have a great importance in arousing internal motivation.

The basis of the operation of the organizations following these values is the mutually formed concept about the arrangement of work.

#### **Abstract**

Culture is the attitude mutually accepted by a human community to the most fundamental questions of life, further it is the complex entirety of its values, norms, behaviours, habits based on this attitude and of the abstract and material products made and accumulated by the community. Nowadays more and more companies recognize that the organizational culture is not a negligible competitive factor. In our studies we studied the organizational culture of agro-economic organizations. The research geographically took place in four counties and the region of eastern Hungary. If we look at the values of the most desirable organizational culture, still considering the total sample, comparing with the present-existing values, we can see that the culture based on performance and the support-oriented culture are expected.

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RAJMUND MYDEL

Regional differentiation and changes  
in manpower in the period 2000–2050  
in the light of forecasts of world demographic trends

**Introduction**

The issue which is one of the most characteristic and significant for demographic changes of the modern world is the problem of a clear acceleration of the phenomenon of aging populations. The highest level of the latter – marked by a relatively high and dynamic increase in the share of people aged 65 and more (post-working age) in the overall population number – is recorded in regions and countries with high levels of economic development. It is common knowledge that this process is primarily related to such demographic and social phenomena of modern civilization as the steady decline in population growth (assuming negative values in many countries) which is a derivative of the decline in birth rate and increasing number of deaths, lowering fertility rates, an essential extension of average life expectancy, or changes in the family model. According to the demographic forecasts for the period 2000–2050, the population after economically productive age (65 years and more) will increase its share in the global world population from 6.8% to 16.3%, its overall rate of growth amounting to 256.4%. These changes in question will mostly affect demographically youngest regions in the world today, starting with Africa (an increase of 430.0%), Latin America (an increase of 373.7%) and Asia (an increase of 330.2%). This process will be accompanied by a drastic enfeeblement

of the dynamic changes of the population aged 0–14 years which will – in the years 2000–2050 – record a decrease of 3.1% and which will trigger off global stagnation in general population within the group of people at economically productive age at the rate of 63.0–64.0%. In the case of regions and countries with the highest level of economic development, this process will bring a clear decline in the share of people aged 15–64, which will mean a drastic reduction of potential (population aged 15–64) and real (economically active population) manpower resources. Europe will be the most disadvantaged region in this regard since the community of people at economically productive age will decrease its share in the overall population number from 67.7% (2000) to 57.6% (2050). Decrease in the structural share of this age group will be also recorded in the North America: from 66.3% to 61.1% respectively, with a relative stagnation of this indicator in the Asian region, namely at the rate of 63.0–64.0% (Table 1). The most significant and economically beneficial factor will be a very strong increase of the number of people aged 15–64 in Africa – from 54.4% to 65.6%. The latter will take place as a result of the fact that in the years 2000–2050 people now aged 0–14 years will attain economically productive age. As a consequence, as far as the category of potential manpower resources is concerned, this region will increase its share from 11.6% to 22.3% in the global scale. This economically disadvantageous trend of a decline in working age population, which in many cases drastically lessens labour resources, raises particular concern of demographers and economists in the countries with the highest level of development.

Table 1: Differentiation in the changes of the world's population age structure according to regions in the year 2000 and 2050

| Region           | Age structure of the region's population<br>(% of the total number of inhabitants) |                |                         |               |                |                         |
|------------------|--|----------------|-------------------------|---------------|----------------|-------------------------|
|                  | 2000   |                |                         | 2050          |                |                         |
|                  | 0–14<br>years  | 15–64<br>years | 65 years<br>and<br>more | 0–14<br>years | 15–64<br>years | 65 years<br>and<br>more |
| Europe           | 17.5   | 67.7           | 14.8                    | 15.0          | 57.6           | 27.4                    |
| North<br>America | 21.3   | 66.3           | 12.4                    | 16.9          | 61.1           | 22.0                    |
| Asia             | 30.8   | 63.5           | 5.7                     | 17.9          | 64.8           | 17.3                    |
| Africa           | 42.3   | 54.4           | 3.3                     | 27.3          | 65.6           | 7.1                     |
| Latin<br>America | 31.7   | 62.5           | 5.8                     | 17.0          | 63.5           | 19.5                    |
| Australasia      | 26.0   | 64.1           | 9.9                     | 18.9          | 62.4           | 18.7                    |
| <b>The World</b> | <b>30.4</b>  | <b>62.8</b>    | <b>6.8</b>              | <b>19.6</b>   | <b>64.1</b>    | <b>16.3</b>             |

Source: prepared by the author on the basis of *World Population Prospects: The 2008 Revision Population Database, United Nations*.

Japan constitutes a classic example of a particularly high degree of this type of transformations in the population age structure. This is the country where the percentage of old people (aged 65 and more) will increase from 17.2% to 39.6% in the years 2000–2050, with a simultaneous unprecedented drop in the number and structural participation of people at economically productive age (15–64 years) from 68.1% to 51.8%. A similar trend of demographic changes will be recorded in China – demographically largest country in contemporary times – where the population aged 15–65 will decrease its share from 67.5% (2000) to 61.1% (2050) with a drastic increase in the proportion of people at retirement age, respectively from 6.8% up to 23.6%. Poland will also experience this trend of population age changes, since by 2050, 30.0% of Polish population will have consisted of people at retirement age, while the community of people aged 15–64 will constitute 57.3% of the total population of the country (Table 2).

Table 2: Changes in population age structure of selected countries in the world in the year 2000 and 2050

| Country | Age structure of the country's population<br>(% of the total number of inhabitants) |                |                         |               |                |                         |
|---------|---|----------------|-------------------------|---------------|----------------|-------------------------|
|         | 2000  |                |                         | 2050          |                |                         |
|         | 0–14<br>years   | 15–64<br>years | 65 years<br>and<br>more | 0–14<br>years | 15–64<br>years | 65 years<br>and<br>more |
| China   | 25.7  | 67.5           | 6.8                     | 15.3          | 61.1           | 23.6                    |
| India   | 35.0  | 60.7           | 4.3                     | 18.2          | 68.0           | 13.8                    |
| USA     | 21.6  | 66.1           | 12.3                    | 17.1          | 61.4           | 21.5                    |
| Japan   | 14.7  | 68.1           | 17.2                    | 8.6           | 51.8           | 39.6                    |
| Germany | 15.6  | 68.0           | 16.4                    | 12.6          | 54.9           | 32.5                    |
| Poland  | 19.3  | 68.5           | 12.2                    | 12.7          | 57.3           | 30.0                    |

Source: prepared by the author on the basis of *World Population Prospects: The 2008 Revision Population Database, United Nations* and *Japan Statistical Yearbook 2009*.

Under these circumstances, there is a growing concern in the matter of securing strategic manpower resources, necessary for economic development and maintaining or improving the level and quality of life of societies, which will consist – from 30.0% to 40.0% – of people at retirement age whilst the percentage of non-productive age population (0–14 years and 65 years and more) will have in some cases reached the amount of 45.0–50.0% by 2050. The scale of the problem is actually even more serious due to the fact that the potential labour resources considered in terms of the share of working age population in total population differ considerably from the real – actual resources which take into account only the population of actively working people, that is employed in the labour

market. Workforce resources, defined in the latter way, are determined by means of economic activity index, which expresses the percentage of economically active people in the total working age population, that is 15–64 years of age. Today, the value of economic activity index amounts to 66.0%, which means that the remaining 34.0% of the world population at economically productive age is not present in the labour market. Real workforce resources expressed in the overall mass of economically active people – as a part of economic activity index – are enlarged due to reduced activity of post-working age population (at the age of 65 and more) and – to a small extent – due to working children (aged 7–14).

Empirical materials – which constituted the underpinning of this study – were developed by the author mainly on the basis of the statistics of the International Labour Organization (ILO): *Economically Active Population. Estimates and Projections 1980–2020* and forecast of world demographic trends by 2050, included in the study entitled *World Population Prospects: The 2008 Revision*. The analysis of the problem in question takes into account the issue of the workforce both in terms of working-age population, as well as the indicators of economic activity of people aged 15–54 and 65 years or more. Statistics for the years 2010–2020 were based essentially on ILO materials, while the statistics for 2050 have been calculated by the author on the basis of the projected population age structures of the world, regions and individual states and the interpretation of the trend of changes in economic activity index in the abovementioned age groups of the population (also in global and regional perspective as well as from the point of view of selected countries). Supplementing the content of global and regional analysis with the examples of particular countries has been dictated by the need for closer analysis of development trends in manpower resources, including labour activity in the countries with the highest level of economic development which are considered as leaders on the economic map of the world and which represent the main links in the demographic potential of the world, including manpower resources.

### **Changes and regional differentiation of manpower in the category of the working age population**

Workforce considered only in the category of participation of people at economically productive age (15–64 years) in the total population, is characterized by extreme correlation between demographic potential of regions or countries and, indirectly, between the level of socio-economic development which undoubtedly has a huge impact on a specific image of the population age structure (including demographic youth or old age). What becomes very characteristic in the latter approach is the absolute dominance of manpower resources in the most densely populated region of the world, namely Asia. Due to two demographically greatest countries in the world: China and India, in 2000 this region participated in 61.1% of labour re-

sources. It seems appropriate to emphasize that China alone accounted for 22.2% of the world labour force in 2000, with no less high participation of India, amounting to 16.5%. What is especially worth noting, the second place was taken by demographically older Europe with 12.8%. In this respect the latter was slightly ahead of Africa (11.6%) and strongly distanced North America, which in 2000 represented only 5.5% of global workforce resources in the category of the population aged 15–64 (Table 3).

Table 3: Changes in the world's total population number and economically productive population according to regions in the year 2000 and 2050

| Region           | Total population<br>(in millions) |               |                                   | Population aged 15–64        |                             |                              |                             |                                   |
|------------------|-----------------------------------|---------------|-----------------------------------|------------------------------|-----------------------------|------------------------------|-----------------------------|-----------------------------------|
|                  | 2000                              | 2050          | % of<br>changes<br>2000–<br>–2050 | 2000                         |                             | 2050                         |                             | % of<br>changes<br>2000–<br>–2050 |
|                  |                                   |               |                                   | people<br>/in mil-<br>lions/ | % of<br>the total<br>number | people<br>/in mil-<br>lions/ | % of<br>the total<br>number |                                   |
| Europe           | 726,6                             | 691,1         | –4.9                              | 491,7                        | 12.8                        | 398,2                        | 6.8                         | –19.0                             |
| North<br>America | 318,6                             | 448,5         | 40.8                              | 211,2                        | 5.5                         | 274,1                        | 4.7                         | 29.8                              |
| Asia             | 3698,3                            | 5231,5        | 41.5                              | 2349,6                       | 61.1                        | 3388,0                       | 57.8                        | 44.2                              |
| Africa           | 819,5                             | 1998,5        | 143.9                             | 445,5                        | 11.6                        | 1310,7                       | 22.3                        | 194.2                             |
| Latin<br>America | 521,2                             | 729,2         | 39.9                              | 325,5                        | 8.5                         | 462,8                        | 7.9                         | 42.2                              |
| Australasia      | 31,2                              | 51,3          | 64.4                              | 20,0                         | 0.5                         | 32,0                         | 0.5                         | 60.0                              |
| <b>The World</b> | <b>6115,4</b>                     | <b>9150,0</b> | <b>49.6</b>                       | <b>3843,5</b>                | <b>100.0</b>                | <b>5865,8</b>                | <b>100.0</b>                | <b>52.6</b>                       |

Source: prepared by the author on the basis of *World Population Prospects: The 2008 Revision Population Database, United Nations*.

The year 2050 will bring major changes in the image of regional distribution of manpower resources. Dominant position of Asia – with 57.8% share in the global workforce resources – will be maintained, and the most populous country in the world – India, will represent up to 18.7% of the world inhabitants. What should be regarded as the most significant issue, is the fact of a drastic absolute and structural decrease of the position of demographically old Europe. The latter will only represent 6.8% of global workforce resources, recording – as the only region in the world – a real decline of around 19.0% in the population aged 15–64. What is going to be equally crucial for the discussed distribution of population at economically productive age in the mid-twenty-first century, will be Africa's increase in the share amounting to 22.3%. This region will take the second place in the regional distribution of manpower, due to a maximum increase in this age category of the population in the period 2000–2050, amounting to 194.2%.

It will be the result of both the largest total population growth in the world (around 143.9%) and of the shift of contemporarily young inhabitants of this region (people at the age of 0–14 represented 42.3% of the total population in 2000) to the category of 15–64 years of age. The main representatives of the latter will be populations of demographically largest African countries in 2050, such as Nigeria (356.5 million inhabitants), Congo (183.2 million), Ethiopia (144.7 million), Uganda and Egypt (128 million inhabitants each). Other regions with a clear increase in the working age population evolving in the range from 30.0% (North America), through 45.0% (Asia and Latin America) to 60.0% (Australasia), will maintain their position with regard to participation in the global resources of the workforce at a level similar to the one recorded in 2000.

### **Changes and regional differentiation of manpower resources in the category of economically active population**

The most accurate manifestation of the size of manpower resources is based on the community of economically active people. As mentioned earlier, such community generally includes economically active people in the labour market, calculated on the basis of economic activity rate of the population aged 15–64. The latter is mostly complemented by a community of economically active workforce at retirement age (65 and more) and, in some cases, also by working children aged 7–14. In this part of the study statistical and descriptive interpretation of the problem of manpower was based on the population of economically active people aged 15–64 and 65 and more, calculated by means of respective index values (economic activity index – EAI). They prove that in 2000, with the rate of economically active people aged 15–64 amounting to 65.6% and with such rate of the people aged 65 and more amounting to 19.9%, there were 2 796.3 million of economically active people in the global labour market, representing 45.7% of the world total population. As far as regions are concerned, the dominant position was held by Asia, with a share of 62.1% of the total number of economically active population in the world. Other, virtually lower positions, were held by Europe and Africa, with a share of 12.3% and 11.1% respectively. Considerably important position was held by Latin America (8.1% of global resources) with a relatively low representation of the most economically developed region of the world, namely North America (5.9%) and with a marginal position of Australasia (0.5% of global manpower resources).

Within the time span 2000–2050, when predicted world population growth by 49.6% will be accompanied by the increase of economically active population by 46.0%, the participation of economically active residents in the world global population (44.6% in 2050) will be maintained at almost the same level. However, the end of the first half of the twenty-first century will trigger off profound weakening of Europe's position in global resources of economically active world population to a level of 6.0%. This predicted situation will be particularly pain-

ful for Europe itself which – in the condition of a real decrease in the number of economically active population by 27.7%, as compared with the year 2000 – will experience a profound shortage of manpower in the regional labour market. Europe, with a clearly reduced demographic potential and with the world highest percentage of population aged 65 and more, will therefore be the only region experiencing a real decline in economically active population. Another direction of changes in the global resources of economically active population, significant for the year 2050, will be Africa's extremely strong increase in importance. The citizens of this region will increase their share in global resources of economically active population from 11.1% (2000) to 22.9% (2050), with a simultaneously highest growth rate of 200.3% (Table 4). Africa will therefore be the second largest region in terms of the world's economically active population, second only to Asia. The latter region, due to India and China, could maintain its primacy though with a considerable decline in the structural share in the period 2000–2050 from 62.1% to 57.7%. In case of other regions, predicted scope of growth of economically active population will allow to retain their position at the level recorded in 2000.

Table 4: Changes in the number of economically active world's population according to regions in the year 2000 and 2050

| Region           | Economically active people |                   |                         |                   | % of changes<br>2000–<br>–2050 |
|------------------|----------------------------|-------------------|-------------------------|-------------------|--------------------------------|
|                  | 2000                       |                   | 2050                    |                   |                                |
|                  | people<br>/in millions/    | % of<br>the world | people<br>/in millions/ | % of<br>the world |                                |
| Europe           | 340,7                      | 12.3              | 246,1                   | 6.0               | –27.7                          |
| North<br>America | 165,5                      | 5.9               | 181,3                   | 4.4               | 9.5                            |
| Asia             | 1737,3                     | 62.1              | 2353,9                  | 57.7              | 35.5                           |
| Africa           | 310,6                      | 11.1              | 932,7                   | 22.9              | 200.3                          |
| Latin<br>America | 227,4                      | 8.1               | 344,9                   | 8.5               | 51.7                           |
| Australasia      | 14,8                       | 0.5               | 22,3                    | 0.5               | 50.7                           |
| <b>The World</b> | <b>2796,3</b>              | <b>100.0</b>      | <b>4081,2</b>           | <b>100.0</b>      | <b>46.0</b>                    |

Source: prepared by the author on the basis of *Economically Active Population Estimates and Projections 1980–2020 ILO* and *World Population Prospects: The 2008 Revision Population Database, United Nations*.

It should be noted that the present state as well as predicted manpower resources are directly linked to the degree of economic activity, the main element of which are economically active people aged 15–64. The latter is complemented by a group of economically active people at the retirement age (65 and more), in which respective economic activity index ranges from 6.0% (in

Europe), 10.0–12.0% (in North America and Australasia) to 20.0% and 40.0% in Latin America and Africa respectively (2000). Economic activity index of people at economically productive age (15–64 years) manifests considerably fewer fluctuations in this regard, recording the highest value in Asia (67.5%), while the lowest in Europe (57.6%), with a global average of around 65.6%. In light of the world's predicted population growth, including the manpower resources by 2050, the conclusions that can be drawn concern a very slow process – on a global scale – of a decrease in economic activity index of people aged 15–64 (from 65.6% in 2000 to 64.0% in 2050) with a simultaneously small increase in the age group of population of 65 or more (from 19.9% to 22.0%). Considerable diversification and fluctuations of these index values will be recorded in regional perspective as well as on the level of individual countries. It is at the same time noted that there is a general regularity consisting in stagnation or decline of economic activity index in the category of people aged 15–64 in the regions with the highest level of economic development, with its simultaneous growth in the age group of 65 and more (Table 5). In case of one of the most important economic regions of the world – North America – economic activity index of the population aged 15–64 will decrease in the period 2000–2050 from 66.0% to 60.0%, which will be accompanied by an increase in economic activity index in question in the age category of people aged 65 and more, from 12.2% to 17.0% respectively. The lowest level of economic activity in both age categories will be maintained in Europe, recording in 2050 the value of 58.0% among people at economically productive age and only 8.0% in the group of people aged 65 and more. Economically less developed regions of the world, including Asia, present themselves quite differently in this respect. What is characteristic in the case of a major player in the global market of manpower resources, namely Asia, is a slight decrease of economic activity index of the population aged 16–64 (from 67.5% to 63.0%), while maintaining a relatively very high (around 25.0%) economic activity index in the age group of 65 and more. What will be crucial for demographically youngest region of the world, that is Africa, is the growth of economic activity index of economically productive population in the period 2000–2050 from 65.8% to 69.0%, while maintaining the world's highest index value of economic activity of people aged 65 and more (40.0%).

The results of researches allow to formulate, *inter alia*, the opinion that in the case of a shrinking and demographically aging population of Europe, the problem of growing shortage of manpower can be partly mitigated by increasing the index of economic activity among people aged 65 or more. On the other hand, great resources of cheap manpower in Asia and Africa could provide a potential source of controlled migration flows of these category of populations on the labour markets of Europe and other highly industrialized countries in the world, including the North America and Australasia. It can be assumed that in the situation of persistent large disparities in economic development of regions and

Table 5: Changes in the number and in the index of world's economically active population /economic activity index – EAI/ aged 15–64 and 65 and more according to regions in the years 2000, 2010 and 2050

| REGION                         | YEAR | 2000   | 2010   | 2050   |
|--------------------------------|------|--------|--------|--------|
| <b>EUROPE</b>                  |      |        |        |        |
| Number of people /in millions/ |      | 340,7  | 357,1  | 246,1  |
| EAI 15–64 years (%)            |      | 57.6   | 58.6   | 58.0   |
| EAI 65 years and more (%)      |      | 6.1    | 6.4    | 8.0    |
| <b>NORTH AMERICA</b>           |      |        |        |        |
| Number of people /in millions/ |      | 165,5  | 182,5  | 181,3  |
| EAI 16–64 years (%)            |      | 66.7   | 65.3   | 60.0   |
| EAI 65 years and more (%)      |      | 12.2   | 15.5   | 17.0   |
| <b>ASIA</b>                    |      |        |        |        |
| Number of people /in millions/ |      | 1737,3 | 2027,9 | 2353,9 |
| EAI 15–64 years (%)            |      | 67.5   | 65.8   | 63.0   |
| EAI 65 years and more (%)      |      | 25.0   | 24.2   | 24.0   |
| <b>AFRICA</b>                  |      |        |        |        |
| Number of people /in millions/ |      | 310,6  | 408,4  | 932,7  |
| EAI 15–64 years (%)            |      | 65.8   | 66.5   | 69.0   |
| EAI 65 years and more (%)      |      | 40.9   | 40.1   | 40.0   |
| <b>LATIN AMERICA</b>           |      |        |        |        |
| Number of people /in millions/ |      | 227,4  | 282,6  | 344,9  |
| EAI 15–64 years (%)            |      | 63.8   | 66.2   | 67.0   |
| EAI 65 years and more (%)      |      | 23.8   | 25.0   | 24.0   |
| <b>AUSTRALASIA</b>             |      |        |        |        |
| Number of people /in millions/ |      | 14,8   | 17,6   | 22,3   |
| EAI 15–64 years (%)            |      | 64.9   | 66.0   | 65.0   |
| EAI 65 years and more (%)      |      | 8.9    | 11.8   | 16.0   |
| <b>THE WORLD</b>               |      |        |        |        |
| Number of people /in millions/ |      | 2796,3 | 3276,1 | 4081,2 |
| EAI 15–64 years (%)            |      | 65.6   | 65.0   | 64.0   |
| EAI 65 years and more (%)      |      | 19.9   | 20.5   | 22.0   |

Source: prepared by the author on the basis of *Economically Active Population Estimates and Projections 1980–2020 ILO* and *World Population Prospects: The 2008 Revision Population Database, United Nations*.

individual countries in the world, we will have to deal with continuously growing stream of international migration on economic background, including illegal work migration.

The scale of the problem of a potential shortage of manpower is most evident at the level of individual countries, including countries with the highest level of economic development. The most classic example is the current and prospec-

tive situation in the scope of vocational activity in Japan. The latter is created both by the world's highest level of the process of population ageing, which in the period of 2000–2050 will be accompanied by a reduction of Japan's population by 25.2% with a considerable decline in the population of economically active people by as much as 63.6%. The latter process is and will be directly related to exceptionally low economic activity index of the population aged 15–64 (a decrease from 62.5% in 2000 to 46.8% in 2050) and population aged 65 and more (a decrease from 22.6% to just 3.9% – Table 6). It is worth highlighting that by 2050, Poland will have resembled Japan in terms of economic activity index in both age categories of the population. In turn, the leader of the European economy, namely Germany, will be affected, just like Japan, by a very strong decline of manpower, amounting to 41.7% in the years 2000–2050. In the light of economic activity index in both population categories, namely the one aged 15–64 and 65 and more, the main determinant of this process will be related to recession trends of natural migration of population and depopulation of the country (by about 14.0%), with an increase in the structural share of the old population by up to 70.9% (32.5% of the country's total population). These recessive trends in natural population movements and growing process of population ageing, underlie the reduction of manpower, which is particularly dangerous for the economic development of countries constituting contemporary leading edge on the world's economic map.

### Conclusion

The researches at issue showed that in the perspective of the year 2050, nearly 90.0% of global workforce resources in terms of economically active population aged 15–64 and 65 and more, will be channelled into developing regions, mostly Asia (57.7% of total resources) and Africa (22.9%), with a relatively high position of Latin America (8.5% of the world's resources). The strongest economic regions of the world, namely Europe and North America will respectively participate in 6.0% and 4.4% of the total number of economically active population. A real and most acute problem for both of these regions is not so much a structural share in the global workforce resources but a rather small increase, or even real decrease, which in terms of highly advanced processes of population ageing will have huge, or even strategic, importance for their predicted socio-economic development. This problem will be probably magnified due to the process of ageing workforce resources, manifested in increasing share of economically active population aged 55–64. For example, in the case of Europe, the percentage of people aged 55–64 in the total number of economically active population will increase from 15.6% (2000) to 22.6% (2050). As far as demographically largest region of the world is concerned, namely Asia, the indicator in question will have respectively risen from 8.0% to 18.1%. The phenomenon of rapid ageing of economically active population will

Table 6: Changes in the number and index of economically active population (EAI) aged 15–64 and 65 and more in selected countries in 2000 and 2050

| Country                        | 2000  | 2050  | % of changes<br>2000–<br>–2050 | % of the share in the<br>world's resources of<br>economically active<br>population |      |
|--------------------------------|-------|-------|--------------------------------|--|------|
|                                |       |       |                                | 2000   | 2050 |
| China                          |       |       |                                |  |      |
| Number of people /in millions/ | 741,5 | 668,7 | –9.8                           | 26.5   | 16.4 |
| EAI 15–64 years (%)            | 77.8  | 65.8  |                                |  |      |
| EAI 65 years and more (%)      | 19.7  | 29.1  |                                |  |      |
| India                          |       |       |                                |  |      |
| Number of people /in millions/ | 403,4 | 693,5 | 71.9                           | 14.4   | 17.0 |
| EAI 15–64 years (%)            | 59.3  | 57.0  |                                |  |      |
| EAI 65 and more (%)            | 29.1  | 30.5  |                                |  |      |
| USA                            |       |       |                                |  |      |
| Number of people /in millions/ | 149,3 | 158,9 | 6.4                            | 5.7  | 3.9  |
| EAI 15–64 years (%)            | 66.8  | 57.6  |                                |  |      |
| EAI 65 years and more (%)      | 12.9  | 18.5  |                                |  |      |
| Japan                          |       |       |                                |  |      |
| Number of people /in millions/ | 67,7  | 24,6  | –63.6                          | 2.4  | 0.6  |
| EAI 15–64 years (%)            | 62.5  | 46.8  |                                |  |      |
| EAI 65 years and more (%)      | 22.6  | 3.9   |                                |  |      |
| Germany                        |       |       |                                |  |      |
| Number of people /in millions/ | 40,5  | 23,6  | –41.7                          | 1.4  | 0.6  |
| EAI 15–64 years (%)            | 58.2  | 58.0  |                                |  |      |
| EAI 65 years and more (%)      | 2.6   | 5.1   |                                |  |      |
| Poland                         |       |       |                                |  |      |
| Number of people /in millions/ | 17,4  | 15,5  | –10.9                          | 0.6  | 0.4  |
| EAI 15–64 years (%)            | 56.1  | 48.5  |                                |  |      |
| EAI 65 years and more (%)      | 7.9   | 3.5   |                                |  |      |

Source: prepared by the author on the basis of *Economically Active Population Estimates and Projections 1980–2020 ILO* and *World Population Prospects: The 2008 Revision Population Database, United Nations*.

mostly affect the countries with the highest level of economic development. The best representatives of the scale of this problem are Japan and Germany, namely countries in which in the perspective of 2050 more than 25.0% of economically active population will have been represented by people aged 55–64. Profound shortage of manpower and highly aged economically active population in the group of most industrialized countries in the world, forces the governments of these countries to implement, inter alia, “open-door” policy for a controlled, regulated and selective

– in terms of skills – influx of foreign migratory workforce. This is one of the most common techniques applied for years by the world's best economically developed countries, including European ones. The world's leader in this respect is Luxembourg, where 57.3% of the workforce today consists of foreigners. Relatively high position is also held by Australia (24.5%), Canada (19.2%), Switzerland (18.3%), United States (12.4%) and Austria with its share of around 10.5% of foreigners in the total number of economically active population. Other countries which are considered as leaders from the point of view of foreigners' structural share in the total number of economically active population are Germany (8.9%), Belgium (8.8%), France (6.0%) and Sweden (5.0%). Ethnocentric Japan, which has been for decades closed from the influx of foreigners who contemporarily represent only 0.2% of economically active population of the country, is currently at the stage of creating a policy which aims at a wider opening of the labour market for foreigners, mainly Asians and descendants of Japanese emigrants to South America. An important element in mitigating the shortage of domestic manpower by the world's richest countries is the transfer of part of economic activity to the countries with rich manpower resources (as a part of offshoring) and the export of capital in the form of foreign direct investment. This process is desirable and beneficial to both parties because it promotes, inter alia, the modernization of economic structures and revives the growth of less developed countries.

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## Changes in the compensation management of human resources in Hungary between 1998 and 2008

Keywords: Human resources, motivation, organization, material and immaterial motivators

Under the changed market expectations, the purpose is the realisation of quality-oriented production in compliance with the Western practice. A determinative factor of the performance of human resources is compensation. The compensation forms applied by organisation managers determine the employees' motivatedness.

There are many different views on the means that can incite the organisation's human resources, both the subordinates and the superiors, to a better performance. Under the changed market expectations, the purpose is the realisation of quality-oriented production in compliance with the Western practice. A determinative factor of the performance of human resources is compensation. The compensation forms applied by organisation managers determine the employees' motivatedness.

Berde (2001) has demonstrated that among functional management studies, managers treat motivation, change management, control and regulation as a key issue. The value-preference studies can serve with important data for managerial motivation. Dienesné (1999) publishes test findings on the value preferences of agricultural specialists from 1993, which show a significant change. Needs of higher order cannot easily be satisfied, as Berki and Berde (1999) highlight it in

a study dealing with the predictability of human nature. In one of her works, Láczy (2008) presents that property and qualifications have always been among the motivations to become members of the elite. In Nagy and Pakurár's (2001) view, the managers' motivation repertory is narrow and usually limited to the specification of financial allowances. Szabados (2008) supposes that a well-motivated employee plays a more and more crucial role in the evolvement of groups. In Vántus' (2006) studies, the employees under survey are the most satisfied with managerial control, social facilities, the provision of working clothes and, which is particularly important, employee's independence. Concerning the employees performing the main work operations, dairy masters are satisfied to the largest extent. Also, farm tractorists, especially of the age 21–30 (72 %) are satisfied.

Terjék (2006) highlights that motivatedness is one of the human factors of labour safety. Pakurár – Gályász – Szabados (2005) reveal that performance management plays a significant role on logistic integrations, too.

In this study, I have aimed to map the changes that took place in the motivation status of managers working at food economic plants, whether the opinions of the managerial strata grouped according to various aspects differ in the surveys of 1998 and 2008, and if yes, what and how considerable the differences are. I have based my studies on a questionnaire survey, inquiring about the factors of motivation, with closed questions, also supplemented with in-depth interviews. When compiling the questionnaire, I have taken the well-known motivation theories into consideration (theories of content, process, expectation, etc.).

The questionnaire indicates the key motivation factors, including job steadiness, salary possibilities, work conditions, the appreciation of work completed, penalty, reward, job diversity, work organisation, improvement facilities, the possibilities for self-training, power and influence, independence and responsibility.

Table 1: The managerial qualification of motivation factors in 1998

| <b>Efficiency</b> | <b>Value</b> | <b>Motivation factor</b>                        |
|-------------------|--------------|---|
| The most          | 4.48         | Salary  |
|                   | 4.01         | Being aware of the targets                      |
|                   | 3.97         | Continuous feedback of the results              |
|                   | 3.92         | Responsibility and independent tasks            |
|                   | 3.91         | Improvement of work conditions                  |
| Average           | 3.65         | Praise  |
|                   | 3.61         | Job steadiness                                  |
|                   | 3.52         | Facilities for continuing training, improvement |
| The least         | 3.14         | Job enrichment                                  |
|                   | 3.13         | Job diversity                                   |
|                   | 3.07         | Penalty   |

Source: My studies.

Managers were asked to assess the above-mentioned motivation facilities on a scale from 1–5, without specifying an order. In this assessment, 1 and 5 referred to the least and the most efficient possibility for motivation, respectively.

I have carried out the survey of motivation factors based upon the integrated evaluation of all incoming managerial studies for both years (Table 1). The qualifications show that the factors under study can be divided into 3 efficiency groups.

I have deemed factors having an average value of 3.81–4.63 the most efficient ones. Motivation tools with an average value of 3.21–3.8 have been qualified as average. I have considered factors with an average value below 3.2 the least effective ones.

In 1998, salary became the factor with the highest qualification. According to Maslow's need hierarchy, this is one of the most efficient means to satisfy our fundamental needs. This factor is followed by the knowledge of targets, the continuous feedback of results, the improvement of work conditions, responsibility and independent tasks.

My findings show that praise, job safety, continuing training and improvement facilities are of average efficiency.

The least efficient motivation factors are job enrichment, job diversity and, finally, penalty.

Table 2: The managerial qualification of motivation factors in 2008

| <b>Efficiency</b> | <b>Value</b> | <b>Motivation factor</b>                        |
|-------------------|--------------|---|
| The most          | 4.63         | Job steadiness                                  |
|                   | 4.31         | Salary  |
|                   | 3.95         | Being aware of the targets                      |
|                   | 3.92         | Continuous feedback of the results              |
| Average           | 3.72         | Praise  |
|                   | 3.58         | Responsibility and individual tasks             |
|                   | 3.53         | Improvement of work conditions                  |
|                   | 3.52         | Facilities for continuing training, improvement |
| The least         | 3.17         | Job enrichment                                  |
|                   | 3.09         | Job diversity                                   |
|                   | 2.92         | Penalty   |

Source: My studies.

As compared to the above, in 2008 the interviewees considered it more important to have a steady job. As the respondents grew older, job safety has become more determinative besides the financial allowances.

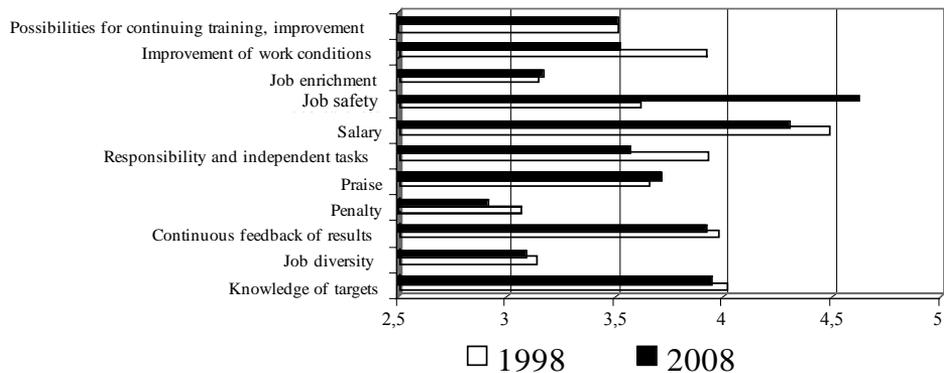
According to my latest survey, food economic managers deem steady job, salary, the knowledge of targets and the continuous feedback of results, to be the most efficient motivation factors.

The interviewees demonstrate that praise, responsibility and independent tasks, the development of work conditions and professional improvement facilities are of average efficiency.

The food economic managers of the 21st century are motivated by job enrichment, job diversity and penalty to the least extent.

Diagram 1 illustrates the extent of differences in the evaluation of each motivation possibility. The survey performed in 2008 demonstrates that the point values of managers differ from the point values at the end of the 20th century. There are factors whose judgement has hardly changed both in terms of the point values and the order made on the basis of it.

Diagram 1: Changes in the judgement of motivation possibilities by food economic managers in 1998 and 2008



Source: My studies.

The greatest changes can be observed in the judgement of job safety, the improvement of work conditions, responsibility and penalty. A steady job became one of the most important factors of these, so a positive change can be observed for this factor. The rate of growth is 1.02, as compared to the value of 1998.

The views on improving work conditions and independence show a declining tendency in the order of precedence, with a rate of decrease totalling about 0.3.

The other factors have a tenth as much differences as compared to the findings of the previous survey. Obviously, their place in the order of precedence changes.

An explanation for this can be that the political and economic changes strengthens the employees' wish for safety, so a steady job is essential. Having a job ensures the basis for us to satisfy our fundamental needs that can be purchased with money.

In the order of precedence, the steady job jumped six places, leaving behind the salary from the first place. The salary is followed by the knowledge of targets and the continuous feedback of results. Here the order of precedence changes again: the praise precedes the responsibility, which is followed by the improvement of work conditions, slipping one place. The significance of ethical motivation tools slightly increased according to the findings of the study. The opinions on the three last factors did not change. Job enrichment, job diversity and penalty are still not determinative from a motivation perspective.

To sum it up, it can be stated that the views on the importance of a safe job have strengthened in the past 10 years, but financial issues are also significant. The emphasis on job improvement and responsibility as well as independence show a decreasing tendency.

From the perspective of 10 years, no significant change can be observed in terms of job enrichment, job diversity and penalty according to the managers under study, as these are still not certainly applied for compensation.

#### **Abstract**

How important is the motivation for organizations? How did motivation in Hungary change between 1998-2008? I wanted to answer this questions. My aim was to find differences, to find changes. In the last ten years, the most important motivational possibility is the safe job. Salary and wages are also equally important. The significance of responsibility, individuality and work conditions were reduced. According to managers, punishment is the least and payment is the most effective form of motivation.

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## Factors affecting the unemployment rate of the Northern Great Plain region

Keywords: labour market, Northern Great Plain region, employment, economic activity, unemployment

### **Introduction**

The recent social and economic processes resulted in the increase in territorial differences. The difference between labor market characteristics of Hungary's regions is obtrusive, and reflects the differences in economic and social state of development. My research covers Hungary's least favourable region's, the Northern Great Plain's labour market characteristics and changes.

The development of countryside economy is very important for Hungarian economy and society, the improvement of rural people's living conditions, the drastic increase of population observing ability of countryside territories. Although in recent crisis state of the world economy these problems are seldom mentioned at the highest decision levels, strategic decisions will be soon necessary. The more and more pressing needs have to be considered as well as the limited – and soon to be more limited in the future – options, and in view of these it should be defined what and how to improve. Of course the aim of countryside

development should be that living conditions of rural people should improve in long term, namely it should be alluring to live there. Since the majority of the inhabitants in question live in the country, this makes the state of labour market and stabilizing its operation a central matter.

I consider the factors affecting the state of labour market to be known, as by knowing them the possibility of positive changes opens. This is extremely important in the recent world economy situation in the long term, as economic-social needs equally demand it.

### Research methodology

The Northern-Great Plain region lays in the Northeastern part of Hungary, bordered by Slovakia, the Ukraine and Romania. Its territory measures up to 17.729 km<sup>2</sup>, which is 19,1% of Hungary's territory. 15,3% (1,56 million) of the population of the country lives there (KSH, 2001). The under 29 age group contains 643.128 of young people. The consistency of population is below the average of the country, as one km<sup>2</sup> holds 86 people, which makes this region the less populated amongst the seven regions.

Figure 1: Northern Great Plain Region



Source: Own edit.

An economic disadvantage of the region (amongst others) is the negative migration balance in the past few decades. 49 settlements of the 387 in the region are cities, but while most of the settlements are in Szabolcs-Szatmár-Bereg, most of the population lives in Hajdú-Bihar and Jász-Nagykun-Szolnok.

The source of data is the information collected by Central Statistical Office; it constitutes the basis of my analysis. I also use the data provided by the Employment and Social Office, and in case of governmental actions, the subsidy summary by dr. Szaló Péter under-secretary of the Ministry of Environment and Land-development.

The analysis of data covers the time period between 2000–2007, by secondary inspections. The starting point is the 15–74-year-old (1.15 million people) which is significant part of the region's population concerning employment, the analyses were based on 3 age groups, sex and education level.

I use ratios in the analysis, as well as correlation between time series. The ratio is the quotient of two statistical data that have a certain relation and belong to the same statistical series. This comparative ratio can be calculated on the basis of time or territorial series. Dynamic ratio is a temporal comparative ratio. Quotient of two periods or data of time-point, namely of the basic time period of the comparison and the subject of the comparison. Ratio can be basis-ratio, which is a dynamic ratio counted by static basis. It is the quotient of the data of the subject period ( $y_i$ ) and the constant basis ( $y_0$ ).

$$V_b = \frac{y_i}{y_0} \quad (1)$$

We can use a chain ratio as well ( $V_l$ ), which is a dynamic ratio with more than two associates connected to each other as chain, that always compares two neighboring periods. It is the quotient of data of the subject period ( $y_i$ ) and the preceding period ( $y_{i-1}$ ) (variable basis).

$$V_l = \frac{y_i}{y_{i-1}} \quad (2)$$

In the analysis of the context I use the prefix correlation coefficient, which shows whether certain values are below or above average. The ones below average get a negative sign, while those above average get a positive sign. This is followed by multiplying the prefixes coherent in relation, then we specify the number of positive ( $p$ ) and negative ( $q$ ) prefix-pair products, and determine the rate of tightness with the following formula. A negative of this is that it does not consider how much certain values differ from the average.

$$r_e = \frac{p - q}{n}, \text{ where} \quad (3)$$

- p: amount of positive prefix products
- q: amount of negative prefix products
- n: total inspected elements ( $n=p+q$ )

$$-1 \leq r_e \leq +1$$

### Results of the secondary analysis

In macro economic aspect, the offered side of labor market consists of the employed and unemployed together, also known as economically active population. The available workforce is affected by the change in the amount of work-aged people besides real-economic processes, thus the target age group in the work force measurement is the 15–74-year-old. In 2007, this meant 1.151 million people in the Northern Great Plain region, which is 15 thousand less than is 2000, this is a 1.3% decrease (Table 1). The decrease in total population was higher (3,2%). In nationwide scale, though, compared to the region, both the number of the 15–74-year-old and the total population decreased by 1 and 1,5%.

In the 8 years in scope, the number of the 15–74-year-old decreased in all three counties of the region, by different rate in every country. In Jász-Nagykun-Szolnok, above the region's average by 3,4%, in Szabolcs-Szatmár-Bereg by hardly 1%, and in Hajdú-Bihar it was almost like the year 2000.

In the region, the number of the 15–24-year-old decreased the most significantly amongst the 15–74-year-old, by 11% during 7 years (table 1). Compared to the whole country's results, the decrease in this age range was above the regions average – 15%. Amongst 25–64-year-old there was a moderated 2% increase, and the number of the 65–74-year-old decreased by 3–4% altogether between 2000 and 2007.

Examining the reasons we can see that the changes above are tightly related to the effect of the ongoing wave of demography. The high number of those born in the middle of the 1950s have not reached the age 65 by 2007, although their children reached 25. The decrease of the 15–24-year-old can be due to the decreasing amount of births since the 1980s as well as the the effect of the invitation of the center and Western part of the country.

Table 1: The content of 15–74-year-old population in the Northern Great Plain region

| Year | 15–24             | 25–64 | 65–74 | Total   |
|------|-------------------|-------|-------|---------|
|      | years old         |       |       |         |
|      | [thousand person] |       |       |         |
| 2000 | 231,1             | 803,8 | 131,5 | 1 166,4 |
| 2007 | 206,4             | 817,9 | 126,9 | 1 151,2 |
|      | distribution [%]  |       |       |         |
| 2000 | 19,8              | 68,9  | 11,3  | 100,0   |
| 2007 | 17,9              | 71,0  | 11,0  | 100,0   |

Source: Central Statistical Agency.

In 2007, 51% of the 15–74-year-old (585.000) people were present in the labor market in the Great Plain region, 25 thousand more than in 2000. Their rate amongst the inspected age groups increased by 2,8% between 2000–2007. Amongst economically active population both the amount of the employed and unemployed increased in 2007, as compared to 2000.

The amount of economically inactive population was 6,6% (566 thousand) less in 2007 in the Northern Great Plain region than in 2000. The extension of the age limit of retirement pension and stricter conditions of entering the disability pension played a role in the change. At the same time, the rate change between the amount of employed and unemployed people is greatly affected by the workforce demand, if upon its increase passive unemployed amongst inactive show as those with high work intention, namely unemployed. The rate of inactives was above average despite the decrease in the region, in 2007 they were 49% of the 15–74 age range, and a bit less, namely 45% nationwide. The age combination of the region's inactive population is specific; among the regions there is the highest (51%) proportion of the 25–64-year-old, which is linked to relatively big frequency of disabled pensioners in the area.

Table 2: Economic activity of the 15–74-year-old

| Év   | Gazdasági-<br>lag<br>aktív) | Ebből                |                   | Gazdaságilag<br>inaktív | Összesen |
|------|-----------------------------|----------------------|-------------------|-------------------------|----------|
|      |                             | foglalkoz-<br>tatott | munkanélkü-<br>li |                         |          |
| 2000 | 560,4                       | 508,9                | 51,5              | 606,0                   | 1 166,4  |
| 2001 | 559,6                       | 516,1                | 43,5              | 607,3                   | 1 166,9  |
| 2002 | 555,5                       | 512,2                | 43,3              | 610,0                   | 1 165,5  |
| 2003 | 572,7                       | 534,0                | 38,7              | 590,0                   | 1 162,7  |
| 2004 | 564,1                       | 523,5                | 40,6              | 598,6                   | 1 162,7  |
| 2005 | 569,0                       | 517,4                | 51,6              | 589,5                   | 1 158,5  |
| 2006 | 594,6                       | 529,5                | 65,1              | 562,7                   | 1 157,3  |
| 2007 | 584,9                       | 521,7                | 63,2              | 566,3                   | 1 151,2  |

Source: Central Statistical Agency.

The changes in the economic structure with bigger importance had already taken place before the examined period, but they have not ended yet. The content of the employed of the Northern Great Plain has also changed according to the main economic branches. The role of the agriculture decreased further in the employment and that of the services got stronger, while the rate of employed in the industry practically hardly changed. In 2007, 59% of the employed worked

in services, 33–34% in industry and 7–8% in agriculture in the region (table 3). Despite the change in the rates, the role of agriculture in employment is above country averages, while the role of services remains below them. I have to mention that the typical seasonality of agriculture can be noticed in certain parts of industry – for example the trained workers in the industrial park – still they do not affect our examinations significantly.

Table 3: Division of the employed

|      | [%]                                |          |         |       |
|------|------------------------------------|----------|---------|-------|
| Year | Agriculture                        | Industry | Service | Total |
|      | <b>Northern Great Plain Region</b> |          |         |       |
| 2000 | 8,6                                | 33,8     | 57,6    | 100,0 |
| 2007 | 7,4                                | 33,5     | 59,0    | 100,0 |
|      | <b>Hungary</b>                     |          |         |       |
| 2000 | 6,6                                | 33,8     | 59,6    | 100,0 |
| 2007 | 4,7                                | 32,6     | 62,7    | 100,0 |

Source: Central Statistical Agency.

If the employed are considered according to the character of the employment, the following grouping can be applied:

- employee;
- member of cooperation;
- member of joint venture, or individual, or
- helping relative.

As far as the character of the employment is concerned, changes of smaller significance took place in the region's employment structure between 2000–2007, intensity and, partly, the direction of which differed from those of the nation's. By the end of the period, 88% of the employed were employees in the region, which is a 0,6% slight increase compared to year 2000. At the same time, their amount extended to 456 thousand (3%) in seven years. During this period, the rate of employees increased by 2,6% nationwide, and their amount by 5%.

The employees being divided according to the main groups of economic branches, differ a little from what we experienced with the employed. In 2007, the rate of industry workers was 2% higher compared to the employed (35,3%) and the same lower rate (5,4%) described agriculture workers. The experienced differences in the distribution according to economic branches practically applied to the whole examined period between the employed and employees. Higher rate of the employees belonged to the 15–24 age group, and less to the 65–74-year-old than amongst the employed.

57 thousand people worked as joint venture members and individuals in the region in 2000, which meant 11% of the employed. Their amount increased by 3 thousand every year in the first half of the examined period, and it began to decrease after 2005, and by the end of the period it reached 62 thousand people, which was 8% more than in 2000. Thus their rate amongst the employed increased to 12% by 2007 and equaled the national rate. The cooperative form has lost a lot of its significance.

Part of them formed an economic company or organized their activity into joint venture, thus their role in employment – already a modest 1% at the turn of the millennium – decreased further by the end of the period. The number of employed was around 1000 in the region in 2007.

The same low rate also describes their participation nationwide. The 3–4 thousand helping family members in the region is an unnoticeable 0,5% of the total amount of employed, and the amount in essence has stagnated in the examined period. The same rate applies nationwide for this form of employment. The education level of the employed – similarly to nationwide results – significantly improved in the examined period.

Practically there are fewer and fewer people every year with only primary school qualification amongst the employed. Despite the continuous improvement in education level, their number in the region is above the national rate. In 2000, 99 thousand of the employed belonged to this category in the region (19%), but in 2007 only 75 thousand (14%).

Of course the demographic alternation affects the change, namely the educational level of the entering younger generation is higher than the one of the exiting generation's. The rate of people with trade school or skilled worker training qualifications slightly decreased between 2000 and 2007 in the region, still this group has the highest proportion amongst the employed (35%) which is higher than the national average (table 4).

Table 4: Composition of the employees by qualification

| Nomination                 | [%]                         |              |              |              |
|----------------------------|-----------------------------|--------------|--------------|--------------|
|                            | Northern Great Plain region |              | Hungary      |              |
|                            | 2000                        | 2007         | 2000         | 2007         |
| elementary school, 8 class | 19,4                        | 14,4         | 17,4         | 12,6         |
| trade school               | 35,3                        | 34,7         | 32,3         | 31,8         |
| high school                | 30,6                        | 32,1         | 33,0         | 33,9         |
| collage, university        | 14,7                        | 18,8         | 17,3         | 21,6         |
| <b>Total</b>               | <b>100,0</b>                | <b>100,0</b> | <b>100,0</b> | <b>100,0</b> |

Source: Central Statistical Agency.

As opposed to the above data, the number of employed with grammar school, technical school and higher level qualification was more in 2007 in the region as 7 years earlier, although their proportion is still smaller than the national average. There is no difference concerning women employed nationwide and in the region as far as qualifications go.

There were significant changes in the age combination of the employed during the relatively short time examined, background of which contains amongst others the changes in the conditions of retiring (the gradual increase of the retirement age), and the extent of time younger generations spend educating, especially higher level education. As a result of all these, by 2007 the number of employed in the 15–24-year-old age range decreased to 38 thousand, and their rate within employment to 7,2% (table 5). Meanwhile the number of 25–64-year-old employed increased by 42 thousand between 2000 and 2007, by 2007 they were 92% of all the employed.

People above 65 – except in the last year of the term – constituted 0,5% of the headcount on the average, their number fluctuated around two thousand, but in 2007 increased significantly.

Table 5: Pattern of the employees by sex and age in the Northern Great Plain region

| Year        | [%]   |       |       | Total |
|-------------|-------|-------|-------|-------|
|             | 15–24 | 25–64 | 65–74 |       |
| years old   |       |       |       |       |
| Total       |       |       |       |       |
| <b>2000</b> | 13,6  | 86,0  | 0,4   | 100,0 |
| 2007        | 7,2   | 92,0  | 0,8   | 100,0 |
| men         |       |       |       |       |
| <b>2000</b> | 14,2  | 85,3  | 0,6   | 100,0 |
| 2007        | 7,9   | 91,1  | 1,1   | 100,0 |
| women       |       |       |       |       |
| <b>2000</b> | 12,9  | 86,9  | 0,2   | 100,0 |
| 2007        | 6,4   | 93,1  | 0,5   | 100,0 |

Source: Central Statistical Agency.

In 2007, according to the actual retirement age limit, 98,8% of the employed were within the age range allowed for work, the rate of those above retirement age was only 1,2%.

According to Central Statistical Agency, the unemployed is anybody who did not work in the week of the survey, and had no job they had been off temporarily, had been searching for a job for four weeks before the survey and could

have started in two weeks if they found any suitable job, or those who had already found a job where they would start working in 90 days.

According to this definition the number of unemployed was 52 thousand on the Northern Great Plain in 2000, they were 4,4% of the region's active 15–74-year-old population. Their number noticeably decreased until 2003, parallel to the improvement in employment, then a significant decrease until 2006, followed by a smaller moderation in 2007. No further decrease is expected because of the recent economic crisis. By the end of the period in question, 5,5% of the 15–74-year-old population (63 thousand) was unemployed in the region.

The region's unemployment rate, which measures the unemployed according to the percentage rate of the economically active, continuously moderated in the first half of the examined period, then began to increase in 2004 whilst the number of inactives decreased. The unemployment rate in a national comparison was – except the most favorable years concerning employment (2003–2004) – the highest amongst regions after the North-Hungary region. According to the workforce survey of the Central Statistical Agency, most of the unemployed could be found in the Northern Great Plain region, altogether one fifth of the total amount.

The unemployment rate of the region was above average every year, and the difference also grew between them, from 2,8% at the beginning of the period to 3,4% by the end. The rate was 10,8% in the region (figure 3). Meanwhile the proportion of unemployed within economically active population was 7,4% nationwide in 2007, and increased by 1% between 2000–2007. As for the counties of the region, the unemployment rate of Szabolcs-Szatmár-Bereg was not only high within the region but also one of the highest nationwide and it increased to 14,7% by the end of the period.

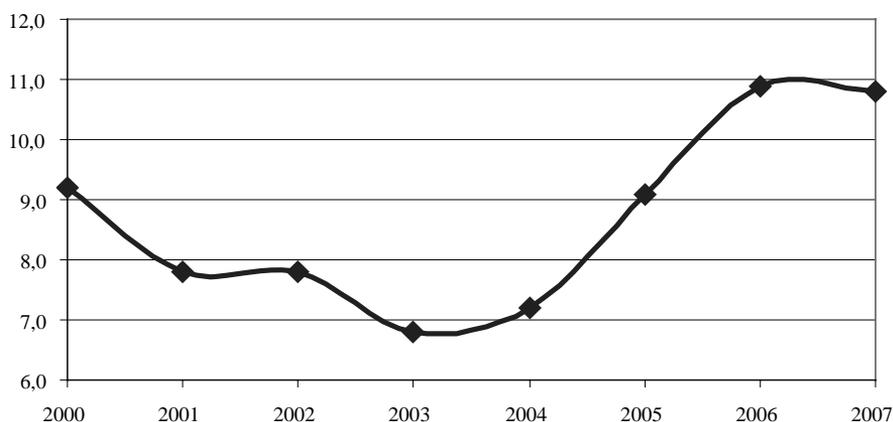
As for the remaining two counties of the region, in Hajdú-Bihar the unemployment rate increased according to tendency to 7,9% and in Jász-Nagykun-Szolnok the same 9,4% rate was measured in 2007 as in 2000. The unemployed in the workforce survey can be further detailed by sex, age group and qualification. The generic consistency of the unemployed changed in the examined period. The rate of men gradually decreased from 62% in 2000 and reached 55% in 2007. Thus in 2007 there were 34–35 thousand unemployed men and 29 thousand unemployed women in the region.

The same tendency can be experienced nationwide and the 53–47% men-women rate shows a bit more equal consistency than in the region. Examining the unemployment rate concerning genera, the indicator of women was more favorable in the first five years of the examined period, it fluctuated between 6–8%, then first reached and later a bit exceeded men's level. The rate of women rose above 11% in 2006 and 2007 and was 1% higher than the rate of men. The age

consistency of the unemployed also changed in this period. 28% in 2000 and 22% of the unemployed in 2007 were 24 or younger and, at the same time, the rate of 25–64-year-old grew from 74% to 82%. The same tendency applied nationwide, as the rate of unemployed under 25 decreased from 26% at the beginning of the term to 18%, meanwhile the rate of 25–64-year-old increased from 74% to 82%.

The unemployment rate formed differently in the different age groups. The indicator amongst 15–24-year-old was well above the average and rose every year. The qualification of the unemployed in the region is less favorable than nationwide. At the beginning of the period, 33% of the unemployed finished primary school at best, 40% had skilled worker training or trade school studies, 25% graduated from grammar school or other secondary school, and 2% had higher-level qualification. The rate of unemployed with primary school knowledge increased in the region, the rate of those who finished a skilled worker training, trade school or secondary school decreased, and the number of unemployed with a degree grew by 5%.

Figure 3: Figure of unemployment rate



Source: Central Statistical Agency, own edit.

We can state, according to the above data, that mainly the less educated are crowded out of employment, although the chances of the most skilled also got worse in the region. A different aspect of inspection of unemployment is possible by Employment and Social Office's data on registered job seekers. However, the definition of unemployed used in CSA's workforce survey is not the same as job seeker, which is also expressed by the diverse terminology.

While examining the changes in the region's labour market position, a couple of parameters offer the premises according to which we can draw the infer-

ence on the current processes. The status of labour market can be described by the unemployment rate already discussed, economic activity and the number of the employed. In the light of the above, I consider the examination of the effects of subsidies in the region most important to find the cause-causal relations. Table 6 can be a basis for the 2000–2007 period.

Table 6: Unemployment rate, the number of those sponsored by active employment, policy and subsidies in the Northern Great Plain region

| Year   | 2000   | 2001   | 2002   | 2003   | 2004   | 2005   | 2006   | 2007   |
|--|--------|--------|--------|--------|--------|--------|--------|--------|
| Number of sponsored by active employment policy [person]   | 23 211 | 24 882 | 19 926 | 22 138 | 15 926 | 17 788 | 11 715 | 12 548 |
| Unemployment rate [%]                                      | 9,2    | 7,8    | 7,8    | 6,8    | 7,2    | 9,1    | 10,9   | 10,8   |
| Subsidies in the Northern Great Plain region [million HUF] | 7 728  | 7 445  | 7918   | 4 030  | 3 415  | 7 304  | 6 209  | 3 730  |

Source: Central Statistical Agency, governmental summary, own edit.

What is significant about the subsidy amount in table 6, is that although its absolute value is very variable, in the examined period a certain part of the total subsidy sum is meant to improve the status of the labor market.

There may be a relation between the number of people supported by active employment policy resorts and the unemployment rate. If we count the correlation we get  $r = -0,66273$ , and as its absolute value is between 0,3, and 0,7, a medium strong relation can be detected (Galó, 1999). According to the prefix, we can see that there is an opposite direction movement, namely the increase in the number of those supported by active methods indeed generates the decrease of unemployment rate. Going further, when we count  $r^2$  we may find out that these active devices define unemployment rate altogether in 43,92%. It's impor-

tant to mention that human resources should be a considerable economic resource (Fehér, 2005) according to this, rural development by implication and its subsidy can positively affect the status of labor force.

With all these in mind, I have examined the effect of the region's subsidy on the unemployment rate. The results should reflect that with the increase of subsidies, the unemployment rate should decrease, namely a negative relation is expected. The situation is not that easy in case of the tautness of the relation, as according to the data a weak relation is suspected. My calculations do not confirm my previous speculations in any of the cases.

The change of subsidies practically does not affect the modification of unemployment rate, as the correlation coefficient is  $r = 0,07913$ , and its prefix is not negative.

If we count the value of  $r^2$  we find that the amount of regional subsidies define unemployment rate in 0,6%. This means that the reasons of the changes in unemployment rate cannot be determined for the time being, as the amount of subsidies does not seem to affect it – which is very surprising. If we examine the content of subsidies, we may find some entries amongst them that obviously do not affect labour market directly or indirectly, only to a very small extent.

As long as we are searching for the subsidy grounds that may affect labour market we can see the following:

- Active Employment Target;
- Economic Development Estimates;
- Targeted Subsidy for Territorial Balance.

Subsidies allocated to the region according to these grounds can be seen in table 7.

Table 7: Subsidies in the Northern Great Plain region

| Subsidies / Year   | 2000      | 2001      | 2002      | 2003      | 2004      | 2005      | 2006      |
|--|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Subsidies in the Northern Great Plain Region, Active Employment Target, Economic Development Estimates and Targeted Subsidy for Territorial Balance in million HUF | 3.606.406 | 3.704.972 | 3.735.038 | 3.079.067 | 3.259.933 | 3.160.156 | 1.367.618 |

Source: Central Statistical Agency, own edit.

Calculations based on this provides a completely different result. The value of the correlation coefficient  $r = -0,6837$  means a medium strong relation. Literature defines a strong relation from 0,7, thus we can say that Active Employment Estimates, Economic Improvement Estimates and Territorial Equalization of Targeted Development considerably affect the modulation of unemployment rate. As the prefix of the coefficient is negative, it's clear that the increase of subsidies given on this premise, resulted in the decrease in the rate of the unemployed. Further investigation and calculation of  $r^2$  shows that these subsidies define unemployment rate altogether in 46,74%.

### **Conclusions**

The results gathered reflect that, as expected, the number of those supported by active employment political means with the use of active methods can properly influence the rate of unemployment, but national subsidies provided for the region do not have the same effect. Detailed examination shows, though, that amongst all the subsidies, Active Employment Estimates, Economic Improvement Estimates and Territorial Equalization of Targeted Development together also influence the development of the unemployment rate. These two coefficients – the number of people supported by active employment political devices and the amount of subsidies given on the indicated grounds – together form unemployment rate in 90,66%.

Searching for the reasons of decrease on the offered place of labour market, we can see that changes are closely connected with the moving effect of the demographic wave. This case shows that the members of the generation born in the middle of the 1950s had not entered the above 65-year-old age group, although their children had reached 25.

The moderation of the number of 15–24-year-old is practically due to the decrease in births since the 1980's and the attractive effect of the Central and Western part of the country. The change in the number of economically inactive people was affected by the extension of age limit for entering retirement and the stricter circumstances of entering disability pension, while the specific modulation of the age content of the region's inactive population is related to the relative large amount of people on disability pension.

As for the structural parameters of employment, the context of the employed in the Northern Great Plain region, regarding main economic groups, has also been modified. Following earlier tendency, the role of agriculture decreased in employment, but the role of services became stronger, while the rate of employed in industry has hardly changed. Despite the modulation of rates, the role of agriculture in employment is more significant than national average, and the role of services falls behind. Demographic alternation also affects the change,

namely the qualification level of entering younger generation is higher than that of the exiting. Furthermore, we can state that mainly the less educated are ruled out of employment, but at the same time the employment chances of the most educated have also got worse in the region.

### Abstract

As a result of the processes of Hungarian economy and society, the increase in territorial differences is noticeable in the last few years. The changes in society's status, the rate of increase and the level of development can be tracked for example in the diverse variation of labor market. In my study I would like to demonstrate the typical processes of labor market based on the time scale between 2000–2007, and I also want to reveal the root causes of the change in unemployment rate. The source of data is a regular, representative labor-survey by the Hungarian Central Statistical Office based on interviewing people, as well as registration on place-hunters by the Employment and Social Office together with the summary of governmental subsidy. In my analysis I targeted the age groups between 15–74 years, but the over 65 year old population, due to their small economic importance, does not modify the results. I define the status of labor market by such markers, inter alia, as economic activity, employment rate, unemployment rate, and I also take into consideration the change in the amount of registered place-hunters in the period examined. My aim is to determine the responsible coefficients of the change in unemployment rate.

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JUDIT KERÜLŐ

## The Problems of Integration and Segregation in Hungary

Keywords: integration, segregation, education

The student performance reesarches conducted in European countries clearly demonstrate that it is the Hungarian educational system that guarantees the least equal opportunities for children coming from low educated and poor families. Performances disperse more among schools than within the school. Students going to better institutions and deriving from families of a lower status have better results, while children attending weaker schools and coming from highly educated have worse results as if it could have been expected based upon their family status. The ethnic segregation intensifies this impact.

Today the technical literature, with the researches conducted in the issue of integration, unambiguously shows that segregation increases school failures and hinders the reduction of arrears and the social adaptation of the diadvantaged. The solution seems simple and obvious: we must eliminate segregation and realise integration. The study discusses this problem on the occassion of closing down a primary school on a county seat of Hungary.

The Government only indirectly affects public education with legal provisions. School maintainers, including the local governments, can determine their education political priority in the local professional and political medium. At the same time, they are uncertain what consequences the institutional structure, peda-

gical or educational offer established or rearranged by them are expected to have and what difficulties they are likely to arise. The local decision-makers are not in an easy situation as the demographical problems compel them to continuous changes, and the merger and closing down of schools. These measures are admittedly unpopular, since there are always losers even despite the most thorough preparations: sometimes children, sometimes parents, and sometimes pedagogists.

The decision is especially difficult when we must vote about the future of a segregated, suburban school of small social prestige, as closing down a school also means that these often disadvantaged children can only complete their education obligations in inner-city institutions.

Nyíregyháza has 120 thousand inhabitants and is located in the Eastern, poorer region of the country. This town has the highest rate of unemployment, the poorest people and the proportion of Gypsy population who live on the social periphery.

Since August 2007, the Local Government of Nyíregyháza has closed down a primary school that was established in 1958. This measure did not have the usual demographical reason, i.e. the decrease in the number of children, but the fact that nearly 100% of the children attending this school were Gypsies.

Segregation in this case bore relation with the segregation of the residential area, as since the late 1990s this part of town has been populated by lowly educated Gypsy families living on the social periphery under very poor conditions. The slums segregated as a result of a conscious decision on town development and apartment allocation, and consequently the school became homogeneous. The segregation of the local people is considerable, it can nearly be considered definitive.

Before the change of regime, the then Town Management made attempts with the practice of integrating, but the resistance of the receiving institutions diverted them from their plan. In the early 1990s, the newly-formed local government had to decide whether the closing down or the renovation of the local institutions would be more reasonable. The Town Management decided for the latter alternative and continued to operate the school.

In the spring of 2007, the Local Government of Nyíregyháza was compelled to react on the reporting of the Foundation for Disadvantaged Children to the police. To put an end to long-continued political debates and negotiations, it terminated teaching in the school and moved the children to town schools in order to eliminate segregation.

The decision generated huge passions among the parents of children living in the slums and of the children attending the selected schools, who tried to use all possible forums and media to prevent Gypsy children from the Guszev slum from attending the schools where their children go.

In September 2007, the teaching started, and time and experience show the difficulties of the integration. This study will process and analyse this problem.

### **The history of the Guszev slums**

Guszev Residential Area, officially named Huszár Area since 1990, is a well-known name in Nyíregyháza. Many consider it a disgrace, the “Harlem” of Nyíregyháza.

Undoubtedly, these slums cause considerable problems to the whole of the town and serious damage to the residents. The slums can be well circumscribed, rails and an industrial zone closes it from the other parts of the town. For the average citizens, the slum is invisible, based upon the criteria of poverty defined by Galbraith as insular, they know and want to know little about the local people, their knowledge is unfounded.

The statements and hypotheses readily heard from others are blurred generalisations, and lead to the articulation of prejudices and the evolvment of prejudiced behaviours. The oversimplifying approach that the local people are “all the same” legitimates the segregation.

The end of the 19th century was the period of large investments in the life of Nyíregyháza. This prosperity was also the period when the large cavalry barracks, today’s Guszev Sie were built, too. The barrack, completed in 1891, was built according to the modern demands and had become the modern cavalry facilities of the Austro–Hungarian Monarchy. The barrack, accommodating nearly 1,500 hussars, became the pride of the town, and was owned by the Ministry of Defence from 1945 to 1957.

In 1957, Nyíregyháza received the barrack to solve the devastating housing problems. According to the original concepts, only buildings that earlier were of residential purpose such as officer and crew’s accommodation were planned to be transformed, which would have provided for the accommodation of 132 families. In 1958, rooms that had been used as stables were also converted in order to reduce the shortage of apartments.

These rooms of only 35-40 square metres could be transformed to maximum room and kitchen flats. 178 such apartments were built, but the reconstruction was unprofessional and generally lacked the foundation.

The quality, equipment, number of rooms and comfort degree of the apartments corresponded to the town average of that time. Guszev used to be the first and only residential area of Nyíregyháza that also had flats with a bathroom, so the leading intellectuals of the town were the first to live here and receive the renovated flats. In this way, the moving in of the residents made this town area a frequented district of high prestige.

In the early sixties, the first fifteen-year housing political program launched the house-buildings from state funding in Nyíregyháza, too. The quality, basic area and comfort degree of the apartments built under this program were not

considerably better than the Guszev ones but the more favourable geographical location, the vicinity to the town centre as a comfort factor started the process of flat mobility, resulting in the management and then the intellectuals' leaving Guszev and intending to satisfy their housing demands from the newly built flats. Following this, the employees and their families left the district through a "quality exchange" The newly built flats had higher rents owing to their larger basic area and better quality as compared to the flats in Guszev. Consequently, the cheaper maintenance and more unfavourable location made the flats in Guszev temporary and then the permanent home of workers moving from the rural areas to the county seat, then poor families usually having many children, and in the late 1960s, when the slums of a "bad social status" were eliminated, the Gypsy families who moved here. In 1974–1975, most flats were renovated and equipped with the modern conveniences. Nevertheless, no more money was left for the really neglected buildings that had used to be stables. What is even worse, the builders performed slovenly work and thus, despite the long renovations, the status of flats hardly improved. The then Management of Nyíregyháza accepted this weird situation, stating that a town need both substandard flats of deterrent quality and good and average quality apartments. They found the slums appropriate for the tenants being in arrears with the rents, presuming that the inhuman conditions make everyone think and thus the proportion of residents with arrears can considerably be reduced.

The attribution of poor housing conditions to a self-mistake legitimated the "convict-colony" function of Guszev owing to its effect of decreasing social solidarity, beyond reconciling the decision-makers' conscience. The generally poor residents living on the social periphery strengthened the stigmatism of the slums, which at the same time meant that it was not only the neglected, poor condition of the flats that caused everyone to escape from here.

In the 1990s, the town structural function of the slums was sharply outlined; more and more people articulated that its existence and development is essential in the aspect of town development, housing management and education policy.

The renovation of the residential area was started at the end of the 1990s. In 1998, the Communal Work Council announced the first tender for communal purposes that intended to improve the scruffy slums with the involvement of the local people.

Nyíregyháza also submitted an application and entirely renovated 33 flats from the funding awarded for this purpose. Although in 1999 and 2000 the Local Government of the Town devoted 100 million Forints to improve the living and housing conditions of the residents, no significant changes occurred, the district remained a segregated, slummed area of the town.

“In Nyíregyháza it is still the terminus of both the buses and fates,” described this district a Representative of the Local Government in 2003. According to the data of 2006, 8 buildings with several floors and 16 one-floor building have 292 local governmental rented flats. Of these, only 14 – only 5% – are equipped with all the modern conveniences, 262 are modern but have no central heating and 16 have even fewer conveniences.

Despite the renovations, nearly two-thirds of the flats are substandard, in a bad state. In 2006, 280 of the total 292 rented flats were inhabited by nearly 300 families. However, the data permanently change owing to the continuous migration. Because of constant leaving and moving to flats, even the Local Government and the lessor Piac és Vagyonkezelő Kft. is unable to follow and register the happenings (Hercegfalvi, 2006).

80% of the flats have one habitable room, they have an average basic area of 40 square metres and they are equipped with the modern conveniences except for central heating. Consequently, nearly 60% of Guszev households are overcrowded, exceeding the residential density of 2 persons per room. The high residential density is proven by the fact that the number of persons per room is over 3 in Guszev, as opposed to the national figure of 1.17; even in 1920, the national value amounted to 2.87 persons per room (Kerülő, 1992; Hercegfalvi, 2006).

Overcrowded rooms cannot be kept tidy, since the room has not enough space for as many beds as many tenants the flat has. Therefore, the kitchen is also often used for sleeping. Both the untidiness and the density, make the impartial observers think that the residents are exclusively responsible for these conditions.

The life standard of those living in Guszev is also deteriorated by the terrible housing conditions. Children are unable to learn at home, and even smooth communication is impossible. Thus, flats reproduce the discrimination, the definitive segregation and the deadlock of the mobility process.

### **The residents of Guszev**

In 1990, a full-scale questionnaire survey was conducted about the local situation and living conditions (Kerülő, 1992). Then 285 families were registered and we had data about 208 households. The families under survey had 831 members at the time of the interview.

The breakdown by the age of the residential population of Guszev has demonstrated that every one in three residents was of school age. This rate of population below the active age was even 10% higher than the value of Szabolcs-Szatmár-Bereg County, which has the first rate at national level. This requires special attention to the slums, as the subsistence, training and maintenance of the generation growing up here burdens the families with costs above the average.

While in Szabolcs-Szatmár-Bereg County one-fourth of families with children were rearing three or more children at the time of the survey, nearly 40% of the local families had minimum three minors.

The proportion of people above 60 is 10% lower than the county figure, which proves the shorter life expectancy and the sorely tired life of the locals. No significant change has occurred during the 18 years since then regarding the local people, the family composition or the demographic features. The proportion of large families continues to be the highest and the rate of the elderly is still the lowest here.

Based upon a survey conducted by the Local Government, 8% of the population of Nyíregyháza was Gypsy in 2003, every one in four Romas lived here. 85% of those living in the slums declared themselves Roma, although few of them speak the Gypsy language (Hercegfalvi, 2006).

Studying the qualifications of the residents of Guszev, the survey of 1990 has demonstrated the overrepresentation of the poorly educated, as then nearly 90% of the local people completed maximum the primary school. No significant difference between the younger and the old group could be observed. Based upon the above, the area could be considered homogeneous in terms of qualifications. No intellectuals or graduates were living in the slums. The rate of illiterates has been thought-provoking, namely 14% who dropped out even from the first four years of primary school. The maximum of further education possibilities for the local people were the secondary industrial schools.

Nevertheless, the secondary industrial qualification has offered a less and less realistic alternative. The practically illiterate people who failed to complete primary school, especially those who dropped out of the first four classes, were definitively excluded from the training and retraining facilities and thus permanently dropped out of the labour market.

Since then, no study on the qualification of the residents of Guszev has been conducted. Indirect data, environmental studies performed by the staff of social institutions, the registers of labour centres and the data of parents of children going to kindergartens and schools show that, regrettably, no considerable change has taken place regarding the qualification of the local people in recent years. According to data of 2003, the qualification of the parents of children going to kindergartens is still low. The average qualification of mothers is 8 years, one-fifth of them did not even complete the primary school. Out of the 86 respondents, only 8 women had special qualifications – a profession. As for the fathers, the rate of respondents having profession is a little higher, totalling 12, while the others have maximum primary-school qualification. Taking into consideration that the interviewees have been young, since the fathers and mothers' average age has been 32 and 28 respectively, they are expected to be permanently unemployed without prospects owing to their educational background (Garajné 2003).

In 1990, a half of the local people fell into the age group of 18–60. While that year nearly one-third of them were active earners, by 1993 nearly all of them had become unemployed. The tendency has hardly changed since then. In 2006, nearly 90% of the local people were unemployed, still owing to their low educational background and the lack of marketable profession (Hercegfalvi 2006). Regarding the residents of the slums, youth unemployment was considerable both in 1990 and in 2006, taking into consideration that over a half of the unemployed in Guszev are below the age of 30. Nearly a half of the youth have never had a job as finding a job upon the completion of the primary school is impossible even in regions with a far lower rate of unemployment than the one of Szabolcs-Szatmár-Bereg County. Studies prove that the chance to become a criminal is the highest among the youth who leave the school, have no trade and become unemployed immediately.

It is nearly sure that young people getting out of the secure walls of the institutions will get into a permanently hopeless situation, resulting in adaptation difficulties and the starting of a criminal's career sooner or later.

Theft, illegally obtaining money and various misdemeanors are frequent in the slums. In 2004, proceedings were launched against 667 inhabitants of Nyíregyháza owing to flagrant misdemeanors committed with stealing property, 86 (13%) of which were residents of Guszevi, Huszár slums. Owing to misdemeanors committed with deliberate nuisance against property, 9 of 100 perpetrators of Nyíregyháza lived here in the same year (Hercegfalvi 2006).

The survey of 1990 has demonstrated that based upon the net income of households per person, 89% of the Guszev families have been poor in both the absolute and relative sense. The data of the town's social office show that by 2005 the situation had hardly changed, the income of approximately 90% of the local inhabitants fell below the half of the medium income. Where family members of active age are unemployed and not entitled to the unemployment benefit, the only secure income for households comprise the social benefits, primarily the child benefits. Most women are at home as full-time mothers. The majority of the adults and elder children sell products on the market or they are day-labourers performing seasonal work. Many are scavengers and sell the found pieces of clothing on the market. If they are short of money, they borrow money from local usurers at a huge interest, which they will never be able to repay. Thus, the amount of the money to be repaid increases to such an extent that nearly the whole amount of the social benefits ensuring modest subsistence gets into the pockets of the creditors (Hercegfalvi 2006).

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### **Is there any chance? What do the national tendencies show?**

The problems related to the education of Romas is continuously on the agenda of the education policy. The attention is explained by several factors. The data demonstrate that the majority of Gypsy children cannot be successful in the present school system, the proportion of drop-out and school-year repetition exceeds the average among them (Kállai-Törzsök 2003). Premature school-leaving as the severest school failure is a problem to be remedied as those not completing their studies will be unable to fulfil the labour market and family expectations, and, getting to the opposite side of the original educational and social gaps, they will permanently be squeezed out to the periphery of society. It is only expertise that can guarantee their long-term presence on the labour market. Therefore, education becomes a key issue as the solution to the problems related to the Gypsy integration, because the gap between the Romas and the non-Romas is more and more worrisome.

At the end of the 1990s, considering the group of people having only primary school education, the indexes of the Romas were three times as worse. 27% of the total Hungarian population and 61% of the Gypsy population completed only eight classes (Magyar 2006).

In 2003, the conference entitled “Romas in the integrating Hungary” was arranged in Budapest. Magyar Bálint, the then Minister of Education highlighted in his speech that “the surveys show that today Gypsy children have fifty times less chance to obtain university or college degree than the non-Gypsy children.

Firstly, because the majority of the Gypsy community lives in deep poverty in small settlements of crisis regions in Hungary. Secondly, because today there are still over 700 classes in Hungary where Gypsy children are taught separately.” (Magyar 2006) The findings of the survey conducted by Ilona Liskó in 2001 prove that schools with a large proportion of Gypsy children are probably attended by the children of families strongly dropped behind the social average and those who live in very poor conditions (Magyar 2006).

Szilvia Németh has undertaken to reveal the most problematic fields of teaching Gypsy children. In the first place, she has emphasised the financing-related problem. The more severe the financial difficulties are, the higher proportion of Gypsy children the schools have. The financing problems influence the methodological preparation of the pedagogists: the more severe financial problems a school has, the lower standard of education it can offer. The relationship is similar in the case of the infrastructure problems, as the more obsolete the equipment is, it is more probable that only the Gypsy children will stay. The following problem has been articulated in the parents’ attitude towards school. They do not know what happens at schools, they are not interested in their children’s achieve-

ments but seem to be indifferent and pedagogists feel that they do not help with their work. But being unqualified, they cannot assist in their children's learning at home. Furthermore, it can be understood that parents reluctantly go to the school if they can only hear about their children's failures, which increases their resistance against school (Mayer-Németh 2005).

During her research, Szilvia Németh has also raised the question what schools do to reduce the students' school failures. The respondents have been headmasters of schools where Gypsy children are in majority as compared to the students of non-Gypsy origin. These institutions are usually located in the segregated, strongly ghetto-like zones at the settlement limits, similarly to the situation presented by us on the Guszev, Huszár slums. The institutions are unable to individually cope with the problems analysed above, external assistance is essential. The latter can be used for the purpose of improving the infrastructure and the personal conditions.

The manager of each institution has emphasised that the key for school success lies in the prospective schoolchildren's going to kindergarten. The involvement of Gypsy children in kindergarten program significantly contributes to their better school achievements in the future (Mayer-Németh 2005).

In his study examining the links between education policy and ethnic segregation, János Zolnay has pointed out that ethnic segregation provides no facilities for either the Gypsy children or the schools having more and more Gypsy schoolchildren to improve their position. Gypsy schoolchildren are unable to improve their position unaided, without external institutional and legal assistance (Zolnay, 2005).

### **Experiments for integrated education**

In September 1958, the Primary School of Guszev received no. 13. At the beginning, as the largest primary educational institution of Nyíregyháza, this school had 400-600 schoolchildren. Its high-level training and PE education provided numerous professionals and sportsmen for the town. By the middle of the 1970s, owing to the filtration of the slums population, the school took the last position based upon the index numbers for school efficiency (year-end results, number of failed pupils, proportion of over-aged, exempted pupils, the compulsory education indexes of pupils) among the primary schools. Consequently, by 1982 the teaching staff had been exchanged, and the institution had become a temporary workplace for job-seekers. It had become a real concept, both the schoolchildren and the teachers had been stigmatised.

Even that time, in the early 1980s, numerous attempts and individual initiatives were launched, but the programs usually failed because the early bursts and efforts did not bring the desired success, teachers were left alone, could not ask

for assistance from anyone, and there was no specialist to discuss the problems with. Consequently, they generally blamed themselves or the bad circumstances for the failures.

In 1985, the school received a new management. From this time on, education was conducted according to other ideas. The study carried out by the National Pedagogical Institute, based upon the findings of other researches in similar education institutions, has drawn our attention to the co-operation of the kindergarten and school. It has emphasised the necessity of eliminating the strict boundaries between the kindergarten and school and proved that children going to kindergarten cope with the challenges of school far better. This leads us to the conclusion that it is the kindergarten that must make the first important step, since the developing work of kindergartens is essential for starting school without problems and the accompanying successes.

By 1994, all the children between the ages of 3 and 6 living in the slums went to kindergarten, so in September this year the number of kindergarteners increased to 90. It was an enormous result as the national studies show that the worse educated the head of the family is, the more typical it is that their children do not attend the kindergarten (Mayer-Németh, 2005).

According to the data of the national representative survey conducted in 1994, 40% of the three-year-old, 54% of the four-year-old and 72% of the five-year-old Gypsies enrolled to kindergarten. 72% seems high, but it should be noted that at this age it is compulsory to attend the classes preparing for school. This means that, at national level, more than 20% of the Gypsy children have not attended kindergarten (Kállai-Törzsök 2003). The data of Guszev demonstrate what large efforts the kindergarten staff make for this result.

Nearly each child comes from families struggling with serious problems, indicated by behaviour problems, too. The majority struggles with communication difficulties and lags behind others of the same age. The children's nervous system is challenged by the daily family conflicts, they are more defatigable, nervous, sensitive and adapt to their peers with difficulty.

From the 1994–1995 school-year, the kindergarten of the slums performs its work according to the “Step by Step” Kindergarten Programme, which was originally elaborated by the Washington-Georgetown University and became known in Hungary with the support of the Soros Foundation. The purpose of its establishment is to assess cultural diversity, ensure equal opportunities, create a personality suitable for active self-management, individual decisions, individual and community responsibility, and to establish behaviour forms and personal autonomy which form the basis of democracy and open society.

In 1994, the programme was launched in ten Hungarian places, including first two in the kindergarten of Guszev, then in each group. The professional and material conditions for the operation were provided by the Soros Foundation.

The preparation, further training and the monitoring of the participants was realised under their management. Similarly, social workers, and a parental assistant, a nanny for each group, were provided by the Foundation for the kindergarten. They were selected by parents living in the slums and enrolling their children to this kindergarten.

The Public Foundation for the European Comparative Minority Research described the situation of the Gypsy minority in a volume entitled "To be a Gypsy in Hungary" in 2003. The problems arising during the education were presented right through the example of Nyíregyháza (Kállai-Törzsök 2003). In this report the authors state the following: "The status of primary school first of all depends upon the extent to which a given institution can select its schoolchildren, close its gate before the local non-desirable children and attract the middle-class families living elsewhere.

The proportion of Gypsy schoolchildren is an index-number that sweeps away all sensible aspects of school selection, foreign-language offers, specialisations, pedagogical programs, computer and infrastructure facilities, and indexes of success and further studies. The rate of Gypsies is perhaps one of the most important factors that makes a school attractive or repulsive. Non-Gypsy parents reject to schooling their children with Gypsies even if they are not afraid of the conflicts of learning together; the value judgement determining the "market" status of schools is more important than the ad hoc experience." (Kállai-Törzsök 2003).

Primary School No. 13, operating in the slums joined the "Step by Step" Program in 1996, when the first children who have spent three years at kindergarten in the spirit of this program started their studies.

The two institutions had a good relationship earlier, too, the teachers had regularly visited the kindergarten, took part in the classes and got acquainted with the children. An important objective of the "Step by Step" Program is to establish a single value order of the kindergarten and school, promoting in this way the transition between the institutions and problem-free schooling, which determines the children's future school career. The name of the program, i.e. "Step by Step Kindergarten and School Program" refers to this, too. Consequently, both the fundamental principles and values determining the work are joint and identical. The differences arising from the age and the related activity forms can hardly be observed.

The teachers involved in the program primarily worked as facilitators at school. They preserved, raised and maintained the inclination and motivation for learning. They promoted, supported and organised the children's individual gaining of experience and knowledge, the conditions for and the sources of successful learning. They ensured the integration of the knowledge and experience obtained within and out of school. They made every effort to understand the children more

and planned the pedagogical processes on the basis of the individual differences. They continued their training so that they can apply the new procedures.

They regularly visited the schoolchildren's families. The number of visits totalled 90-100 annually, which, taking into consideration that one family usually had several schoolchildren, meant minimum two or three visits with the same family every year.

As an eight-year primary school, the school operated with one group of schoolchildren. In the junior classes, the form of education was a day school, in the 5th and 6th forms day-care, and in the 7th and 8th classes schoolroom education was held.

In the 2006/2007 school-year the number of schoolchildren totalled 103 persons, nearly all of them were multiply disadvantaged Gypsy pupils, 77 of whom were qualified as endangered. The number of over-age students was 31. The number of schoolchildren had been stagnating for several years, even three-fold of this number could have learnt at the school.

The institution employed 9 first- and second-form teachers and 9 teachers of upper forms. The pedagogical work was directly assisted by 3 pedagogical assistants, 1 expert of youth protection and 1 speech therapist paid by the hour.

In the junior classes, the day school education work had been organised based upon a special program since 1996. The consistent program and thorough teacher's work considerably decreased the drop-out from primary school education. Every schoolchild completing the eighth form wished to continue their studies, two-thirds in technical schools and one-third of them in secondary grammar schools. The results achieved here were better than the national average regarding the intention of the pupils in the eighth form to continue their studies. However, the rates of institutions selected for their further studies by the type corresponded to the Hungarian tendencies. The findings of the national survey conducted by Gábor Havas, István Kemény and Ilona Liskó in 2002 show that 15% of the Gypsy children do not continue their studies upon completion of primary school, while 57% of schoolchildren continuing their studies go to secondary vocational schools and 20% learn at secondary schools.

The data of the survey also show that the rate of dropouts decreased at primary schools but increased at technical schools and secondary vocational and grammar schools (Havas-Kemény-Liskó 2002).

The secondary schooling expansion of the past 15 years and the considerable fall in the number of succeeding age groups largely improved the schooling indexes of Gypsy students completing primary school, but no break-through occurred, the gap between Gypsy and non-Gypsy pupils did not decrease.

At the school of Guszev this was the maximum that could be achieved under segregated circumstances, with huge efforts and persistent work in the field of indexes of further studies. The later individuals get into an integrated environment, the more difficulties and failures they have to face, which often results in the premature finishing of secondary school studies and the reproduction of low qualifications.

The school personnel could finance the developments required for their daily work and the participation in further trainings providing continuous confirmation and self-confidence from application funds. Nevertheless, owing to their segregation, they were left out of the integration programs and, consequently, they were deprived of all application possibilities after Hungary's accession to the European Union. The school management supposed that the segregation of schools involved in the program cannot be avoided, but the application announcers forcing integration purposes put the homogeneous Gypsy institutions to an even more disadvantageous position. The employees are obviously interested in enrolling the children living in the slums to this school; the staff knew them and were well-prepared for their problems and learning difficulties. They maintained a daily contact with the parents, often helped them manage their affairs and obtain social benefits.

In its report of 2001, the Parliamentary Commissioner of National and Ethnic Minority Rights 2001, pointed out that the local governments and schools often actively participate in the establishment and maintenance of the segregation, yielding to the pressure of the non-Gypsies. By January 2007, the Local Government of Nyíregyháza had unambiguously supported to the maintenance of the school, similarly to the national tendencies. It argued that "integration will probably be a difficult and lengthy process, with lots of conflicts among the population of the town.

As opposed to the school of the Huszár slums, the policy of the current Town Management aims to delay the termination of the institutions as long as possible, since this step would change the schoolchildren's position in a wrong direction. A considerable part of the parents would not be able to transport the children to town schools, or even if they could, they would not do that because of the expectable prejudices and expulsion. If the institutions operating on the Huszár residential area are terminated, the local children should be placed at other institutions of the town. Considerable resistance can be observed among the institutions and the parents, as many expect quality deterioration at the institutions that will receive the children from the Huszár residential area. In particular, these parents will withdraw their children from the kindergartens and schools and search for institutions that receive no children from the Huszár slums, declared one of the Deputy Mayors of the town in 2005, who was at that time the local governmental representative of the slums. (Giba 2005)

Before the change of regime, Nyíregyháza already made an unsuccessful attempt at the integrated education of the children living in the slum. The then management wished to place a class of pupils in the surrounding schools, but this attempt could not be realised because of the resistance of the receiving institutions. Following this, the town was not thinking about other alternatives but was interested in the staying and local studying of the children living in the slum. Based upon the principle of “lighter resistance,” it rather financed the growing maintenance expenses. In 1997, it renovated the building, fixed the gas heating and provided the flats on the first floor for the school. The operation of the building, which was considerably unexploited, entailed huge costs, and only a third of this amount could be covered from the norms upon the children. Therefore, they offered a bargain to the Gypsies: if they accept this situation, the education programs promoting the close-up will be supported and the schools will be maintained in the future. The Local Government also planned to enrol the Gypsy children living in other town districts into this renovated school, too, and thus the further concentration of Gypsy pupils. It expected this measure to relieve the pedagogical problems related to Gypsy schoolchildren, since many well-prepared pedagogists who could handle the disadvantages and learning problems worked there. However, the parents enrolled an increasing proportion – in 2006 nearly one-third of the children from families living in the slums – into the close primary school and not this institution. They argued that town schools provided better opportunities and prepared children for their further studies better than the school of Guszev.

When making the decision, generally the vicinity was the most important factor. The Gypsy parents were discouraged by the difficulties and costs related to the travelling. Consequently, despite the primary school, children got into three institutions where nearly 20% of the pupils were qualified as multiply disadvantaged.

### **The milestones of integration**

In January 2007, the General Assembly of Nyíregyháza outlined and analysed the status of the primary schools operating in the town and stated in a resolution that the school of Guszev, similarly to other primary schools of the town, may only launch a new first class if the number of children enrolled reaches 20. The decision showed the intention of the local government that by continuously operating the school, it will deem the primary education of local children as solved, since as the data of Table 2 demonstrate, the number of first-form pupils was nearly always about 20 in the past five years.

In the meantime, the “Chance for Disadvantaged Children Foundation”, under the trustee board presidency of Erzsébet Mohácsi, formulated a statement

of claim, initiating a legal contest before the Szabolcs-Szatmár-Bereg County Court for determination of the requirement of equal treatment. This was preceded by the discussions held by Viktória Mohácsi European Parliamentary Representative with the Deputy Mayor of the Town about the termination of the segregated school one year ago. Since the Foundation supposes that no progress has been made regarding the elimination of the segregation, they turned to the Court.

To the argument of the Local Government according to which the proportion of multiply disadvantaged pupil is high at school not because of the conscious but the spontaneous segregation, the Judicial Board of Debrecen responded against the Local Government of Miskolc with the absolute judgement passed in the case of school segregation of Gypsy children, stating that the right of Gypsy pupils to equal treatment can be violated through omission, i.e. the maintenance of the spontaneously emerging segregation, too.

The statement of claim and the prospective negotiation accelerated the events. Only one month after the General Assembly Resolution passed in January 2007, which entailed the survival of the school, a decision was passed that the closing of the school shall be prepared for. Following this, the resolution of 22 April 2007 declared the termination of the institution with no legal successor as of 31 July 2007.

### **The basic principles of integration and the experience of its realisation**

The preparation and the realisation of the integration constituted at least as important political as professional task. All local governmental representatives paid special attention to keep the interests of their electorate undamaged, in particular, the children of their voters should not have classmates from the slums of Guszev.

The Town Management was afraid that if it does not manage the integration consciously, the parents from the slum of Guszev will continue to enrol their children to the near primary schools, which will considerably increase the rate of the multiply disadvantaged at those institutions. As the Head of the Office in charge of the realisation of the decision said, “we do not want to make three segregated institutions out of one.”

According to the data of the 2005/2006 school-year, the 19 local governmental primary schools of Nyíregyháza had over 8,000 pupils. In the 2007/2008 school-year, their number fell to 7,340. 8,7% of all pupils were Gypsies. The local government intended to place the Guszev children attending Primary School No. 13. to institutions where the proportion of Gypsy pupils is far below the town average. Thus, from September 2007, the children of the slums were received by 6 central town “elite schools”.

The question of placement raised several problems. The most severe one was that each receiving institution was attended by children from families of high social prestige, which is favourable from respect of the integration but made the realisation far more difficult. Regarding the primary schools, those offering specialisations and having few Gypsy children are attractive. The institutions appointed for reception fulfil these demands.

The directors appointed for reception were afraid to lose the trust of families and parents of high social prestige owing to the children of Guszev, which might even appoint the institution for termination owing to the decreasing number of children. The Town tried to reassure the worrying pedagogists that parents will find Gypsy children in a higher proportion at any local governmental school, so this cannot be an aspect when selecting an institution.

The parental resistance was also considerable from the part of those living in Guszev. First they lodged a protest with 110 signatures to the General Assembly in February 2007, requesting the maintenance of the school. The Gypsy Minority Local Government was also involved in informing and encouraging the parents, assisting in the arrangement of the meeting between the executors of the decision and the residents of the slum. Later, referring to their right to choose a school, they protested against the appointment of institutions for them, although they wished to enrol their children to the neighbouring and well-known primary schools. They were afraid that the children's adaptation to the new, elite environment would be problematic. Travelling also caused a difficulty, as the new institutions were located in remote town districts and can be accessed with mass transport only with difficulty.

The Local Government of Nyíregyháza also specified in the resolution terminating the school that the transportation of the children should be organised in the morning and in the afternoon, and the number of absences may not increase for this reason. In order to reduce the number of absences, Primary School No. 13 introduced the practice of collecting the children who had not arrived at school for the beginning of the first class, so it immediately turned out what the reason for absence was.

Since September 2007, the town has been transporting the children in two school buses in the morning and in the afternoon, when the day school classes finish. In the buses, pedagogical assistants accompany and lead the children into the classroom.

An important basic principle of the integration is that the interests of the children may not be injured. Since the placement of 85 children had to be solved, the Management attempted at proportionality so that children from Guszev get into the new institutions in nearly the same number. This means an average of 10-15 pupils for each school and maximum 1 pupil by the class.

The adaptation caused especially great difficulties for children of the senior classes. This is demonstrated by the data of absences, which were high during the first weeks.

The consequent execution of the humane principle of “from one family into one school” also caused a considerable tension, which shows that the theory and practice may sometimes differ from each other in certain situations, so the decisions about children have to be individual and personalised. As for a family, 4 pupils with severe behaviour problems got into the same school, causing lots of problems with their aggressivity. Owing to this actual case, we can observe the most considerable antipathy, indignation and rejection towards the children from Guszev at this school.

The fact that no problems have arisen yet in relation to the adaptation of junior class pupils into the new environment demonstrates that the younger a pupil is when getting into an integrated environment, the easier it is to carry out the integration.

Mentor pedagogists known well from the previous school how to deal with the “transferred children”. For the purpose of efficiency, József Mayer identified a threefold task of the mentors. They must ensure professionalism during the learning, so they themselves must be vested with the knowledge they wish to transmit. They must acquire a personalised methodology that is suitable for supporting the co-operation in all relevant fields. The ultimate aim of their work is to promote their pupils’ integration, which requires them to support the realisation of it with global life management consultancy (Mayer, 2007). The engagement of pedagogist who earlier worked at the school of Guszev as mentors, can largely facilitate the process of desegregation. These teachers are well-prepared both professionally and methodologically, they have plenty of experience in dealing with the multiply disadvantaged and they provide security for the schoolchildren. They monitor the learning, behaviour and difficulties of the children. They help not only the children but also their teachers, who have never or only rarely dealt with pupils having learning and behavioural problems.

The mentors regularly meet each other to discuss their experience. They themselves need to keep contact, as they have been working together for several years. The exchange of experience is important to them, which provides confirmation and strengthens self-confidence.

As for the receiving institutions, the Local Government has promised to arrange further trainings, supervision and case discussion groups for pedagogists dealing with Gypsy pupils and has allocated over 500,000 Forints for this purpose. Finally, another basic principle is that the interest of the staff of the school which was closed without a legal successor are violated, to say the least. In June 2007, 18 teachers and 3 pedagogical assistants worked at Primary School No. 13. Find-

ing a job for them was not easy, since concurrently with the closing of the school of Guszev, the Town General Assembly decided to close 3 primary schools with a legal successor, entailing the dismissal of further 120 pedagogists. Four teachers were employed as mentors at the schools where the proportion of the multiply disadvantaged is far beyond the town average, while other six teachers were transferred to institutions where their former pupils from Guszev go to.

Two pedagogical assistants help with the daily transportation of the children. The further employment of 8 teachers and 1 pedagogical assistant could not be fixed. These employees, since the institution was closed without a legal successor, with no other legal solutions, received a premium to an amount corresponding to their salary for the number of months equalling their “notice period”. In spite of accepting and not questioning the principle of integration, the teachers experienced the termination of the school as a personal failure, supposing that their work was qualified with this decision.

The Local Government also decided upon the approval of the Gypsy integration program in June 2007, stating that the closing of the school of Guszev was only the first step.

To cover the extra expenses of the contributing institutions and organisations, the Local Government allocated 3 million Forints. The building of the former school now houses social institutions, Family Assistance and Child Welfare Service, Gypsy Minority Local Government and other non-profit organisations.

The European Union can log considerable achievements regarding the problems of ethnic minorities, but it is a fact that the integration of the Gypsies – a social group in one of the worst position – causes lots of difficulties.

It is also commonly known that the principle of equal opportunities is not enforced in the Hungarian education, since the system does not guarantee the same standard of education for children of school age. Hungary is the country where the difference between the pupils’ school achievements can be determined by the social composition of the given school to the most striking extent.

The effect of the family background through the homogeneity of schools continues to strengthen, so they deepen the existing inequalities. The solution is evident: integration. The realisation of it is problematic, especially in the case of social groups of low social prestige, the Gypsies. The education integration was realised in plenty of places and is successful if it involves non-Gypsies. In Nyíregyháza, the co-education of healthy students with the partially sighted, the partially deaf, the physically disabled and children permanently and severely hindered in the learning process because of psychic development disorders has been operating smoothly for over 15 years. However, the situation is different when we wish to teach Gypsy children together with non-Gypsies.

After lengthy debates, Nyíregyháza passed the decision in 2007 to close its primary school teaching Gypsy students in 100% without a legal successor. Numerous arguments were articulated pro and contra, there were more opponents than the supporters of desegregation. Only a few months have passed since the school has been closed and many problems have turned up, especially the most spectacular ones such as aggressive behaviour, behavioural problems that are difficult to handle. It must also be seen that it is only one, although considerable, step in the elimination of the process of segregation, but children continue to live in a segregated environment, in deep poverty.

It is a fact that the Local Government can only enforce its desegregation endeavours at the institutions maintained by it. In Nyíregyháza, two-thirds of the children of school age attend such schools, which can at the same time entail that the non-governmental, church, foundation and teacher's training schools can become more attractive to parents opposing the integration.

By writing this study, I aimed to describe an actual case for those believing in the integration and working for its realisation, taking into consideration the steps, reactions and contrary reactions that have arisen and the difficulties that had to be faced.

### **Abstract**

Today the technical literature, with the researches conducted in the issue of integration, unambiguously shows that segregation increases school failures and hinders the reduction of arrears and the social adaptation of the disadvantaged. The solution seems simple and obvious: we must eliminate segregation and realise integration. The study discusses this problem on the occasion of closing down a primary school in a county seat of Hungary.

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## The Jewry of Szabolcs and achievement of middle-class status in the Reform period

Keywords: Jewry, chief rabbi, middle-class status, election, religious community, estate, integration

In the Hungarian society, Jewish merchants have been present since the age of the Árpád dynasty, but their immigration to Hungary significantly raised their capita-tion in the north-eastern part after the edict of tolerance passed by the so-called hatted king, Joseph II (the enlightened Habsburg Emperor was the uncrowned King of Hungary in the late 18<sup>th</sup> century. Taking the new opportunities, the immigrants strived to organise their livelihood and religious life.

In this period, Szabolcs County had several market towns; however, we can only highlight three of them owing to their size, function and later development. Until 1876, the county seat was Nagykálló, where the founder of the Hungarian Hassid religious trend, the famous religious leader, Taub Eizik Izsák, honoured as rabbi of miraculous power, led not only religious life but also the local Jewry. The second market town is Kisvárda, having the largest Jewish population, and the third one is Nyíregyháza, where first landowners of the town settled in primarily corn-merchants, and then, concurrently with the establishment of county offices,

the settlement of the Jewry started. The different characters of the three towns not only determined the life of the population but the people also significantly shaped the towns. Consequently, they nearly represented such process in the domestic lives of the Israelites that can be called typical from a national or even European perspective. Hereinafter we would like to add some typical data to this fact on the basis of the sources.

After the death of Taub Eizik Rabbi (1821), the Jewry of Nagykálló elected no rabbi for themselves for a long period, so the position of the county chief rabbi was not filled either. When an election was held in 1840, four candidates were appointed. The election was organised by the religious community of Nagykálló, who tried to enforce their own interests during the procedure and strengthen the leading county role of the local community, taking advantage of the fact that Nagykálló was a county seat that time. On these grounds, they tried to ensure the dominance of their community over the other religious communities, and aimed to achieve this also through the person of the rabbi to be elected. Consequently, the conflict deepened between the communities of Nagykálló and Kisvárda, both being traditionally significant<sup>1</sup>.

On 5 May 1840, the “Israelites of Kis Várda District” wrote a letter of complaint to the “County Delegation supervising the affairs of the Israelites”. According to this letter, the members of the religious community of Nagykálló decided that “a rabbi standing pre-eminent among the other county rabbis with its erudition and education, similarly to this county seat over the villages, should be held in Kálló”. This rabbi would be responsible for deciding upon the “doubtful cases, by applying our laws and lawful customs”. The citizens of Kálló resolved that the “burden of his salary should be borne by the Israelite villages of the whole county”, even those that had already elected a rabbi for themselves, and thus they should keep two rabbis. They summoned the representatives of the communities together to decide upon the candidates, but in the view of the citizens of Kisvárda they tried “deceiving” them by nominating someone who “was in blood relationship with a local wealthy family”, and as their influence covered the representatives of the Nádudvar, Nyírbátor and Dada District, too, they could elect a candidate<sup>2</sup>. This candidate was Fried Áron, supported by the wealthy Fried and Hartstein families having a considerable influence in Szabolcs County<sup>3</sup>. Otherwise, they misled the delegates of Kisvárda by summoning them together for 24 April /it was a feast-day/ to resolve the issue, but the citizens of Kálló already passed a resolution in this matter on 24 March by appointing four candidates. Two of the

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<sup>1</sup> 1 Municipal Archives of Szabolcs- Szatmár- Bereg County /hereinafter as SZSZBMLt. / IV. A. 6. The documents of the County Recorder of Szabolcs County 1815–1844. /hereinafter as IV. A. 6./ Box 1 /hereinafter as d./ File no. 2375/1841 /hereinafter as i. sz./.

<sup>2</sup> Id. see Notes.

<sup>3</sup> Harsányi, 1972. p. 27.

latter were “unknown”, so they could not be recommended for the high rabbi’s function; the person mostly wanted to be the chief rabbi, “besides its inferior and slight erudition, is only known as a 70-year-old man – expecting only few years for himself”; therefore, soon another rabbi election would be held, which “would cost a considerable amount of money”. / Any way, it is he (Fried Áron) who “is closely related to a local family”. / The fourth candidate is “of lower erudition and is better by no way than any other Jewish rabbi in the county”. They suppose that the candidates are “incompetent and unworthy” of the high dignity. In their view, if they go shares in the chief rabbi’s salary, they should intervene in the appointment and election as an equivalent party, find a person who “is worthy of this position thanks to his erudition, education and sophistication”; therefore, they should discuss with other chief rabbis, too, which is a lengthy and time-consuming procedure, so they applied for the suspension of the election. They proposed they should “elect among candidates who have learnt at large foreign schools and passed the public examination<sup>4</sup>.”

Their complaint gained a hearing, because their submittal of 13 January 1841 stated that “with our equal and joint consent, Sái Benét, the son of the late Moravian Israelite chief rabbi, Markusz Benét was elected chief rabbi of Szabolcs County” for three years. He would be responsible for supervising the financial and religious affairs, the kosher butchers, while the “marriage and divorce services” also fall within his authority. In the villages that had already elected a rabbi for themselves, he was only competent in the divorce services and the supervision of kosher butchers. “And we, the county Israelites are obliged to respect him, glorify his merit and accept all his heavenly commandments”. “God forbid!!! That anyone kicks against his honesty and will”. Besides, “our Chief Rabbi is obliged to maintain and run schools, teach and instruct the young people of the county, and pay attention to them in every moment”. His salary was determined as “10 pengős” and he was also provided with an apartment. Besides this, he could expect an income from the Israelite population of the settlements ”where people gather together for the Christmas festive divine service /i.e.: *ros ha- sána* ”Jewish Christmas” the beginning of the autumn festival/” – to pay one forint for him. The parties about to be married forward one forint upon the engagement present of 100 forints, two forints upon 500 forints, and four forints upon 1000 forints to the rabbi, and “one may not give less only more in their free will”. Every year he will “receive a double salary for two months”. His salary was paid commencing from 28 October 1840, and his contract was already concluded on 9 September. The submittal was signed by nineteen persons, including Zicherman Náthán County Jewish Chief Justice<sup>5</sup>.

On 31 August 1841, Zoltán János Sub-prefect was asked by the County Israelite Aldermen to approve and announce their decision in Szabolcs County,

<sup>4</sup> Id. see Notes.

<sup>5</sup> Id. see Notes.

and provide for the punishment of those refusing to accept the decision. On 29 November it was accepted by the County's General Assembly.<sup>6</sup> Jesaja Benét fulfilled his duty until his death (1864); however, following that the religious communities becoming independent and strong did not wish to appoint a county chief rabbi among them, they elected no more chief rabbis in our county.

Nevertheless, more complex motives could have been hidden behind the fact that could also be called the internal affairs of religious life.

The Jewish religious community started to operate in Kisvárdá in 1796, but no data is available on their number for this year. We have knowledge of 4 tenant families in 1759; their number increased by one in 1767; 8 householders were recorded during the census ordered by Joseph II. However, in half a century a third of the population of Kisvárdá is of Jewish origin; the census held in 1848 lists 723 persons<sup>7</sup>. We proved this considerable increase with control by name, as in Fényes Elek's statistics, the difference is significant for the large community of 500 persons. It is true that he published such number of inhabitants in his statement of 1839, which shows that new people settled in Kisvárdá in the past decade beyond the natural growth.

Considering their profession, we met with the most interesting result. 190 persons pursued some kind of a profession, of which only 3 persons lived on land cultivation as leaseholders. A total of 35 professions were pursued in the town, including several traditional trades like merchant, tailor or shoemaker. As a matter of curiosity, during the pipe-makers' work in Kisvárdá, the production of each part of the pipe was determined as an independent trade (pipe-bowl lid maker, the man covering the pipe with copper, etc.). The underwear makers did not make underwear in today's meaning but sewed the bedclothes, embroidered the trousseau and fastened the buttons by hand. The number of brain workers can be considered significant: 12 primary school teachers (including the teachers of religion), 7 students, 2 rabbis and 2 cantors were named in the census. In 1848, the local Jewry could also be found in the public life of Kisvárdá. They were obviously not included in the electoral register as the law did not allow this, but they already appear in the dedication register of the Hungarian Army; what is more, a Jewish officer could be found in the municipal council.

This is proved by a letter of travel issued on 26 April 1849, asking Svarcz Filep to go and pull arrows in Nagykálló as a Hungarian soldier of Kisvárdá<sup>8</sup>.

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<sup>6</sup> Id. see Notes. Bibliography: 'László Harsányi: To the History of Jewry in Nagykálló', [in:] *Five settlements*. Written by: Fülöp Grünvald, László Harsányi, Jenő Schück. Monographs of Jewish Religious Communities in Hungary. Edited by: Sándor Scheiber. 5. Budapest, 1972. Published by: The National Representation of Hungarian Israelites, pp. 22–31.

<sup>7</sup> Municipal Archives of Szabolcs- Szatmár- Bereg County (SZSZBMLT) Jewish censuses IV. A.1. Fasc. 68. N 2132. 1767, IV.A.1. Fasc. 68. N 2184. 1767, IV.A.1 Fasc. 35. N.92. 1785, IV.B.109. 1848.

<sup>8</sup> SZSZBMLT, IV.B. 103. 1 cs. Unfortunately, only the summary of the Kisvárdá Section remained from the Militiamen's Census, but it is known that 120 militiamen were counted, who all applied for the movable defence army, too.

In that place, the citizens of Kisvárdá caused a great sensation with an earlier complaint stating that they could not elect delegates into the renewed county commission. In their professional legal reasons, they explain that Kisvárdá, being a market town with 3,000 inhabitants, reasonably requires representation in the county commission. In the rejection we can read that “our representatives, besides all notices of protest, were refused by the presidium because they have no voting power and electoral capacity”<sup>9</sup>.

It can be stated that the dynamic development of the town was mainly promoted by the trade exploiting the favourable geographical situation; the local community achieved the middle-class status besides its earlier peasant’s commodity production, in which the large Jewish communities played a determinative role. They deemed the achievement of middle-class status a natural wish and specified this in the name of the whole town community in the above letter of complaint as follows: “All coalesced classes of the market town of Kisvárdá adore freedom, equality, fraternity and their homeland from the laws brought.”

Their religious lives are not mentioned, which probably means that they encountered no opposition by other town inhabitants. In 1876, on the 100<sup>th</sup> anniversary of the organisation of their church, they already had a congregation of 2,100 persons, their church was built on the Eszterházy-kind of land, which was already owned by the Wahrmann family that time. It also had a school, a hospital and a decorative ritual bath<sup>10</sup>.

The lives of county Jews residing in Nagykálló differed significantly. Here the forty-year effect of Taub Ezik Izsák, who had become an erudite chief rabbi from an orphaned shepherd boy, could be felt. The Hungarian film entitled *Job’s rebellion* commemorates him, too, as the characters visit his tomb, sing the famous allegoric folkloristic song belonging to the Chassid cycle of legends. Following his death in 1821, an epitaph was written on the grave house erected on his grave: “He could learn the Talmud and was an honourable Jew.” Here they also considered it important to set down the following (set out now in the Hungarian translation): Here is buried our Lord, Instructor and Rabbi, Head of the Court of Szabolcs District, who judged over the sons of Israel for 40 years, Jiccák Eizik, the son of Rézel, the son of Mojse Echezkél. God bless his memory. Aged seventy, Izsák grew older, died on the saint day of Saturday, and returned to his people into the grave at the time of grace, the rise of the stars on the 7<sup>th</sup> day of Ádár 5581 (1821)”<sup>11</sup>.

<sup>9</sup> SZSZBLT, IV.B 102.48.cs. 646.d. 1848.

<sup>10</sup> ( Edited by): Samu Borovszky: Szabolcs County Bp. without year., [in:] Jewish Religious Communities in Szabolcs County pp. 367–368.

<sup>11</sup> M. Lácay: Fates in Our Past, Nyíregyháza, 1988. pp. 74–76.

Following this, it is not surprising that the people of Kálló wanted to elect a man respected similarly highly. Nevertheless, in the meantime, nearly 20 years had passed, and plenty of changes had occurred in the public life of the town. Firstly, such an event that could not be related with this case at the beginning: Kornfeld Sebald, a Moravian surgeon arrived in the town in the 1820s, whose brother named János and pursuing the same profession worked for Hám János Bishop of Nagyvárád.

In a few years' time, he became well-known for not only his healing work but also his public activities and literary erudition. In 1837, he converted to Catholicism with his family; they were christened by János Hám and took the name Korányi. His ten-year-old son, Frigyes, who later became a world-famous doctor, had a reputable godfather, Péter Kállay. Frigyes' mother also changed her name; Anna Kandel is mentioned as Anna Nyíri in her children's biography<sup>12</sup>. In 1848, he joins the army as a medical student, and thus he must live in exile in his home town. He falls in love with daughter Malvin of Barna Bónis, who is respected as Lajos Kossuth's friend. The marriage was contracted, and the Korányi family became famous for their outstanding achievements among the Hungarian doctors and pharmacists.

Nevertheless, such a marriage used to be a rarity that time, which was probably promoted by the Korányis' assimilation to a large extent.

Reverting to the disputes on the rabbi election, we suppose that it is just the admission of Sebald Korányi that promoted the reaching of a compromise. In the Reform period, the Czech (Moravian) relations could rather mean the Western influences, the erudite tendency that has extensive social relations and is ready to integrate, which could be a guarantee for the citizens of Kisvárdá wishing to join the middle-class, it meant the solution of agreement for many of the inhabitants of Kálló without the feeling of defeat. That is to say, they already had people settled here and could have acquaintances, although the case of the Korányi family could be deemed exceptional.

When evaluating the events from another perspective, we can also discover the effect of the Reform period in the fact the Jewry wishing and striving for emancipation were ready to resemble their own organisations with the Hungarian public order. The county chief rabbi election similar to the Hungarian church system was a unique event, but under the service of the long life chief rabbi, historical periods passed in a relatively well-organised system. After his death, the national events resulted in denominational division, struggles between the Orthodox and the Innovators. The Austro-Hungarian compromise of 1867 and the concomitant new provisions of law affected both the Jews wishing to achieve middle-class status and the Jews preserving their religion in the various trends.

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<sup>12</sup> *Ib.* pp. 263–266, and Árpád Fazekas: In Honour of the 150<sup>th</sup> Anniversary of the Birth of Frigyes Korányi Hospital Founder, Almanac III of András Jósa County Hospital, Nyíregyháza, 1977.

**Abstract**

In the Hungarian society, Jewish merchants have been present since the age of the Árpád dynasty, but their immigration to Hungary significantly raised their capitation in the north-eastern part after the edict of tolerance passed by the so-called hatted king, Joseph II. After the death of the last chief rabbi, the national events resulted in denominational division, struggles between the Orthodox and the Innovators. The Austro-Hungarian compromise of 1867 and the concomitant new provisions of law affected both the Jews wishing to achieve middle-class status and the Jews preserving their religion in the various trends.



RÉKA CSUTKAI

## The causes and possible handling of labour bottleneck at the large companies of the North-Alföld Region

Keywords: unemployment, multinational companies, staff shortage

### **Introduction**

A new power game has started on the scene of labour supply for industrial production. The system of relations between the employers and the job-seekers or the unemployed, who have different powers, potentials and demand interests, has changed. (Jávor-Rozgonyi 2005). The recruitment specialists of production companies operating in the North-Alföld Region have been referring to the more and more intensive scarcity of labour in the past 3 years, while the regional rate of unemployment is one of the highest at national level, and the economic crisis may result in the termination of further jobs.

In this conflict, the generation of strains started with the change of the economic regime in Hungary in 1989/90. After this change of regime, the official forums classified the region as a depression region owing to the reduction of economic bases, the decline of agricultural, food and textile industrial production to a rate exceeding the average economic decline, the mass termination of jobs and the negative influence of the fear of unemployment on motivation. (Bakancsi et al. 2004 and Rechnitzer 2005). The decrease in the industrial activi-

ties of other industrial regions and Budapest is also reflected here: commutation remits, and active householders redundantised in the Western regions or Budapest and thus negatively affected in their self-esteem and motivation return to their villages. The cut-back of vocational training and the marketisation of post-secondary training flattered children from families in hard circumstances with a pseudo take-off point, who hence reproduced the unemployment stratus, or a wide range of unemployed career-starters.

With respect to the 1<sup>st</sup> quarter of 2007 and the 2<sup>nd</sup> quarter of 2008, the number of employees is over 517,700 persons, while the number of the unemployed exceeds 64,500 on the average in the region. (Central Statistical Office)

Let us clarify the areas whose labour demand has not been satisfied in the past 1–3 years:

– Large companies that operate with considerable staff fluctuation owing to their production structure, seeking unskilled and semi-skilled workers with no or very special qualifications

Often operating as the production facilities of multinational companies, these companies do not extend the employment contracts concluded for a definite period upon the decrease of the production peak (3–7 month on the average).

– The other shortage area covers positions requiring special, both theoretical and practical competence such as engineering, chemical industrial and some textile industrial **skilled labourer**. I highlight the term ‘skilled labourer’ because a high number of theoretical specialists with a higher education degree are trained, while vocational training (no matter that central integrated vocational training centres have been established), the improvement offering relevant experience and information, and the acquisition of practical knowledge are currently insufficient in the region. As the demand for specialists plays a considerable role for the employers, the solution of this issue constitutes the subject of a separate analysis owing to its alternatives requiring more creativity and collaboration.

To sum it up, what are the employers’ expectations and the job offers? Monotonous seasonal work in several shifts with an employment contract for a definite period and minimum wages.

Organisations struggling with staff shortage are unable to solve the problem of staff demand from internal resources or with transfer in the long run.

They post job advertisements in regional daily newspapers and free weekly advertising magazines or inform their employees on vacancies, giving and offering some kind of guarantee, since if someone recommends their acquaintances, they at the same time vouch for them to some extent, and if someone recommends their employer to their acquaintances, they probably trust their company and boss.

Consequently, several companies pay “capitation money” to their employees if they recommend their acquaintances and the new employees stay at the employer upon the probation period, too.

Multinational companies sometimes operate a team consisting of several employees to fulfil the tasks of recruitment and selection, while other try to solve this situation by involving an external partner (employment agencies, labour-hiring bureaus) for energy and cost efficiency reasons.

### Material and method

I list my statements during my survey as a summary of over a thousand personal discussions and interviews. As one of the key reasons, a pronounced correlation highlights employment by sex. Characteristically, the breakdown of applicants by sex is remarkable considering positions according to the above criteria: 32% more women applied for the job advertisements requiring lower education and requiring no special competence than men. Men's self-respect and women's self-abnegation at the labour market would worth a separate study.

In respect of the above question, the data of the exit interviews taken upon termination of employment by the employee may provide further information. The integrated handling of the reasons of both groups can provide a more comprehensive picture of the problem.

Let us study the most typical answers when candidates refuse a job or employees terminate their employment relationship:

- *“The job-seeking benefit is higher than the salary offered here!”*
- *“I cannot maintain my family / pay my loan from so little money!”*
- *“I cannot look after my children/family/ill parents with such working hours.”*
- *“I can only work from 8 a.m. to 4 p.m. because I must take and bring my children.”*
- *“Are there no company buses? I cannot commute because there is no proper bus traffic between my home and the company.”*
- *“I need a contract for indefinite period otherwise the bank grants me no loan.”*
- *“I earn more money in 8-10 days with undeclared work.”*
- *“Do not declare my employment relationship, otherwise I will not receive the social / nursing / other benefit.”*
- *“I need more holidays because of the agricultural works, or I can only come to the morning / night shifts and I cannot work on Saturdays or Sundays.”*
- *“I don't want anyone to order about for such little money.”*
- *“I worked for far more money and in a better position before the staff reduction / my children were born / abroad.”*
- *“I am disabled.” Consequently: “I search for work in a way that income remains, too.” Or: “I don't bear such physical burden.”*

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- “*I don’t want this kind of work with my qualifications.*”
  - “*I want office work.*”
  - “*I cannot sit in one place, is there a more exciting job?*”

## Results

The reasons can be divided into several groups according to the list:

**Health reasons**, which originate from the permanent existence of physiological or psychosomatic complaints typical of the older generation, and the inducement is the fear of losing the disability pension received for this.

**Social factors**, including the number of children (3 or more children) and the lack of day-nurseries, the limited capacity of kindergartens in villages and their opening hours makes work difficult (working hours of 8.5 hours and travelling time) without the help of grandparents. Also, the nursing of old relatives, or a home situated far from the employer’s premises. Although sometimes the distance is max. 5 km, but at the employee’s cost within the public administrative borders.

**Personality factors:** The specific, individual features of the integration of motivation and performance needed in the socialisation process, according to the family and school models. We must admit that there are lazy people, similarly to satisfied people living on the minimum wage, who live their lives built on others’ responsibility.

During the stress before the explosion of the conflict, the elder but active population had to face the feeling of “uselessness” and rejection when becoming unemployed owing to staff reduction at a large company or the dissolution of collective farms. These people’s self-confidence and faith in their competitiveness has further been destroyed by the series of semi-skilled seasonal work offering an income that is sufficient for the minimum subsistence costs only if no credit debits the family. It is statistically proven that the net average wages approximate the officially acknowledged minimum wages, and this income level is even subject to an income tax. (Bakacsi et al. 2004)

The older generation, who worked in the Socialist period, hardly understands today’s world. No job is available to everyone, while the social benefits still operate following the principle of uniformity, “misleading” the unemployed, as they can obtain an “income” without performance.

Besides, if the typical rural family farming provides some source or further incomes originating from day-wages (free of taxes!), one cannot question that the continuous, monotonous work burdens entailing long travelling times can easily be replaced by this manner of life. And this is already an economic factor, even some kind of self-provision.

Reverting to the employee's personality, the question is what life and performance models the career-starting generation will follow. They also largely increase the number of job-seekers, apparently as qualified or over-qualified workforce, as in many cases they have completed several courses and acquired further trades – which generally only means theoretical training.

Following this, they are entitled to expect a job with higher remuneration and position as a “well-qualified employee” than the ones offered by the multinational companies. However, they have no expertise (either theoretical or practical) for the specialised job titles of the companies applying foreign capital and technology. Companies who are able to ensure fresh supply training and practice-oriented training are fortunate since the Hungarian educational system has not grown up to the fulfilment of industrial needs. Perhaps the announcement of the model of Life Long Learning can hold out a hope.

**Economic reasons:** after a thorough study, we can find it behind all responses.

On the employee's side, the minimum wages are only sufficient for subsistence according to life's prime want, or rather below life prime want besides the current fuel and gas prices. This is especially true if we consider the changes in family models, including the high proportion of one-parental families. Nevertheless, pay policies hardly change.

The job-seeking benefit, the family benefit and the municipal provisions enable people to vegetate at this level in the long run even without a job.

The seasonal work offered in the agriculture and the building industry (with employment booklet, with or without payment of contributions) grant a higher net income in 7-10 workdays per month than the minimum wages earnable on 22 workdays on the average.

Following the change of regime, the economic and labour market situation generated a wide-range of “disabled” class in this region, whose return to the labour market is also essential by forcibly reducing the social security supports. Nevertheless, the long period spent without work and their health status, which is real or assumed by the employer, also obstacles their becoming active earners, their return into the world of work.

## **Conclusions**

What alternatives do employers have?

Until the early 2000s, low wages entailed an advantage for Hungary, which presently cannot be necessarily said with the current staff contributions. The employees' monthly wages are generally the minimum wages specified by law. This sum can be supplemented with shift bonuses as the shift order is generally con-

tinuous or ceaseless, which means that production is performed 24 hours a day on maximum six days of the week, or even on each day of the week according to a duty list as specified in advance.

The employer pays the statutory wages and the mandatory staff costs and bonuses, as well as the overtime allowances determined for the case of overtime work. The employees may potentially lose the possibility of enforcing tax refund owing to their increased income, and although they work at night, at weekends and overtime, they earn lower net wages as if they worked from 8 a.m. to 4.30 p.m. at minimum wages.

A positive feature is that multinational large companies in foreign property register their employees, and pay the wages, bonuses, overtime income and contributions as specified by law. The annual ordinary holidays, the sick-leave and the sick-allowance are accounted and paid according to the requirements, and the employees may also receive compensation besides their wages.

The employer also bears other cost burdens related to the employment. For example, employers should reimburse the travelling costs of employees residing in towns or villages near the employer's seat or premises. Working clothes mean another cost factor, which may sometimes "leave" the company before they are worn away based on the production cycles. Furthermore, during the training period, the newly-hired employee cannot fulfil the norms of the job title, perhaps he manufactures a higher proportion of scrap, and the working hours of the person training the new employee cannot be utilised ideally either.

To reduce its burdens, companies may choose from various fringe benefits as compensation, but these elements (e.g. healthcare fund payment, travel cheques, the cost of Internet use) do not automatically entail "wage increase" to employees, or more precisely, they are not perceived as such by the employees, generating another conflict situation.

We face another problematic case, when employers pass more burdens to the existing staff in critical cases, e.g.: they ask the existing employees to perform the increased amount of work, often using as much overtime as permitted by law, and broadening the job titles as much as possible. In many cases the possibility of transfer is applied temporarily.

These actions are not good for the workplace atmosphere, the relationship among the employees and management; the more frequent diseases of overloaded employees, the longer sick-leaves and the provision of sick-allowances all deteriorate the situation. The "employee PR" of the company struggling with problems also turns into negative, the company reputation among the local inhabitants and the active population gets injured. Consequently, the company loses another considerable part of its potential employee base, demonstrating the Pygmalion effect despite their will (Csepeli 2001).

The following two solutions can be more favourable in terms of both reputation and costs:

1. A special case of employing student workers, when the employers allow only the employees' relatives and children to take summer work at the company, as a privilege. In this case the employer does not take the opportunity of fraternities decreasing the costs because his employees – in this case the parents or elder brother or sister – would receive lower net wages at the end of the month than the relative hired at summer work. After the end of college entrance period, 35-40% of the students would like to maintain an employment relationship if admitted to no university or college.

2. In the case of the completion of a few tasks, the hiring problems are not solved with the costly automatization but a contract concluded with a subcontractor. It is recommended to contact partner plants and SMEs where the production cycle is just the reverse of the organisation struggling with labour shortage.

There are some creative or traditional alternatives, but I hope that the situation emerged upon the changes in regulations will be favourable for both the job-seekers and the employers.

In this study, I primarily deal with the listing of current anomalies, and the practice and theoretical approach of possible solutions. However, in spite of the fact that our most important task is the sharpening and deepening problem of human resource management, the optimisation of unemployment management could be effective only when acquiring knowledge of a complex economic and social development concept.

### **Abstract**

In the North-Hungarian Region, several large multinational corporations are struggling with the problems of workforce supply. This is true not only for job titles requiring special knowledge and experience, but in many cases for positions filled by unskilled and semi-skilled workers.

By gathering and analysing the data of job and exit interviews, I reveal the reasons and alternative solution possibilities to manage this surprising phenomenon.

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KLEMENS BUDZOWSKI

## Prices and pricing strategies in the international market

Enterprise carries out current and strategic objectives by means of prices and, more specifically, by implemented pricing policy. From the standpoint of the market participants who assume the role of sellers, the price is one of the instruments for achieving the objectives that they want to arrive at through participation in the exchange of products (goods and services). Price reflects a quantitative estimate and subjective image of the benefits which chosen characteristics of products or services provide<sup>1</sup>. By means of its aggregative function, the price allows us to compare different goods on account of their nature, function, quality and size, and due to its redistributive function it allows balancing of the flow of money and goods in a particular market. The price primarily informs us of the market situation and about the feasibility of carrying out the adopted strategy. A proper price system promotes an optimal allocation of resources of production factors, it creates the conditions for the selection of export specialization in highly effective fields, it promotes the elimination of inefficient production areas, it allows the selection of objective production and investment decisions taken independently by business entities. The scope of the pricing policy is largely determined by the nature of the market in which a given business entity operates. As far as captive market is concerned, the freedom of manipulating price policy is considerably restricted both by the activities of the monopolist itself and, on the other hand, by formal-legal actions taken by the state

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<sup>1</sup> H. Nessim, M.R. Dodge, *Pricing Policies and Procedures*, PWE, Warszawa 1997, p. 25.

in order to defend the domestic producer dominant in the market. When modifying the price, the company must take into account the financial capacity of the monopolist but also such elements as the activities of government institutions which control prices, the structure of distribution channels, and the influence of price flexibility on the changes in trade conditions. In the single European market, the freedom of pricing policy is much greater, and the EU institutions seek to ensure conditions for fair competition and the equal treatment of entities operating in this market.

The price level of a particular product depends largely on the company strategy. If the strategic goal of a company is to maximize sales, the price will not be placed at a higher level but very often at a much lower one than that of competitors. Sale maximization requires price flexibility in the market and, very often, even a reduction in prices to a level or even below the price level charged by competitors. If the company pursues a strategy of maximizing profits, one of the main criteria applied in determining the price of the product is return on sales of a given product, line of production, profitability of individual components, service, parts, etc.

In the second half of the twentieth century, the price steadily gained in importance in the marketing mix. If in the 1960s it were the product and promotion that played a crucial role, in the 1980s, as a result of market development and the emergence of several new dynamically competing companies, it was the price that had become an essential parameter in the marketing mix of companies operating in the local, domestic or international market.

When shaping the level of prices, one should take into account various dependencies existing between price and demand, increase / decrease in prices and the level of purchases, different types of regularities, but also paradoxical correlation between price and supply which is characteristic of a particular market of goods<sup>2</sup>. According to the Giffen paradox, an increase in the prices of staple goods leads to increased purchases of such goods, whilst, on the other hand, the rise in prices of selected luxurious articles (the Veblen paradox) can trigger off increased sales of such goods. Consumers in many markets reveal similar tendencies, trying to make the same purchases as their relatives or friends. The effect of imitation, sometimes called the effect of the scene, causes the purchase of goods to be undertaken regardless of price or price change, just because such merchandise was already purchased by relatives or close friends. Sometimes the purchase of goods is made only to show off, since its price is very high and the product becomes unavailable for most of one's neighbours and friends (the effect of snobbery). It is also worth noting that many consumers, when trying to maintain the level of consumption (despite a decrease in income or increase in the price), make the

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<sup>2</sup> Compare: Mazurek-Lopacińska K., *Zachowania nabywców jako podstawa strategii marketingowej* (*Purchasers' Behaviour as the Basis of Marketing Strategy*), Wydawnictwo AE Wrocław 1997, p. 61; also: Waniowski P., *Strategie cenowe* (*Pricing Strategies*), PWE Warszawa 2003, pp. 58–67.

same purchases as before, even though the prices of the purchased goods have considerably increased (lock-in effect). The result of being accustomed to certain products is that after a relatively short period after ceasing or reducing purchases, due to higher prices, customers return to their traditional goods and gradually accustom themselves to new market realities (shock and adaptation effect). In the condition of long-term inflation, one can encounter the speculative effect, which is manifested in buying up goods, the prices of which are rising, only in order to resell them at a higher price.

The increase of fixed costs – observed in the last century – associated with mechanization of production and automation of manufacturing processes, development of technology (involving expenditure on scientific and technical research), increase qualifications and higher wage requirements of employees etc., necessitate the need to minimize the unit cost of production, which very often requires an increase in the scale of production, expanding markets for goods whilst, at the same time, stimulating the internationalization of production and exchange. It must be borne in mind that the risk of operating in the foreign market is much higher than the risk associated with the activity in the local or national market due to the payment and delivery conditions, method of payment, the loan scheme and financing transactions and commercial policy undertaken in the country of the foreign business partner.

What should be taken into account when determining the price of the product being launched in a particular market is the price flexibility of demand as well as the factors which influence this. Although it is difficult to precisely determine the nature and amount of the factors that influence price flexibility of demand, particularly in relation to the foreign market, pricing policy should take into consideration the basic factors which affect customer behaviour, such as:

- the specific value and characteristics of the product (if, due to the use of the means of influencing the market, we succeed in convincing the buyer of the specific properties of the product, he will be willing to pay a considerably higher price for the goods);
- lack of possibility to compare (a client who is not aware of the existence of alternative goods available on the market, though under a different name, in a different package, but with the same properties, is willing to pay a higher price for the product offered to him);
- belief in the correlation between price and quality (it is often the case that a high price is associated with a high level of product quality and, conversely, a low price may indicate a low or average level of product quality);
- the effect of the purchase (customers pay more attention to the level of price when buying the product than when buying a replacement part for the same device. When they, for example, buy household equipment, tourist equipment or automobiles, their attention is drawn primarily to the price of the product

and not the price of spare parts. The purchase of durable products forces us to use the service and to purchase spare parts. The product bought in the parts is usually several times more expensive than the finished one);

- prestige of the purchase (a customer who has purchased high-class tourist equipment or an expensive car does not stop using the latter simply because, for example, there are higher fees for ski lifts or an increase in petrol prices);
- tradition and commitment to well-known and promoted brands (it is very often the case that a domestic product with a high level of quality and technology sells worse than a product promoted on a global scale and which is constantly present in the media also in a particular local market);
- attachment to local and national tradition (some of the products purchased on the occasion of religious celebration or public holidays, even when offered at significantly lower prices in other periods, generally do not find buyers, even if they can be long-term stored products).

Foreign consumers' preferences and the structure of consumption very often differ from the domestic ones. Price flexibility of domestic demand may be determined by considerably different factors in the domestic market than abroad. As a result of the latter, the price of the same product will be differently determined, depending on whether it is launched on the domestic market or abroad. In relation to exported goods, the factor which differentiates prices is the need to take into account additional costs such as transportation, freight and insurance to the destination, the costs of promotion and packaging consistent with the requirements and habits of the foreign business partner or the costs of foreign distribution. When determining the price of goods intended for export, it is necessary to take into account such factors as: trade policy measures (tariffs, quotas, clearances and other limitations of the import) imposed in the importing country, inflation in the country of a business partner, exchange rate policy, including currency convertibility or its absence, etc. All additional costs associated with launching the product in foreign markets result in the phenomenon referred to as foreign price escalation. The limit of price escalation is the level of the price that customers in a particular foreign market are willing to pay. Determining far too high a price for a foreign product may in fact lead to a decline in foreign demand and, consequently, to the loss of this particular market. Many companies try to limit the phenomenon of foreign price escalation by reducing transport costs (sending the product in parts), lowering producer price, changing the tariff classification of a product, price dumping or setting up production in the country of the business partner etc.

Each enterprise operates in a particular market situation. Only some, large companies, which operate globally, can afford to ignore the pricing policy of market competitors. Proper pricing strategy must take into account, on the one hand, customers' attitudes and reactions and, on the other hand, the behaviour of competition. According to Philip Kotler, the concept of marketing is based

on the assumption that “the key to achieving the goals of the organization lies in identifying the needs and requirements of target markets and ensuring the desired satisfaction more efficiently and effectively than competitors”<sup>3</sup>. As far as marketing literature is concerned, the response in relation to price competition can be reduced to four basic activities: cooperation, adaptation, opportunism and expansion.

Cooperative behaviour constitutes the basic form of the market activity for small and medium-sized companies that seek to adapt their pricing policy to that of price-leader in the market, namely to a company dominant due to its share in the sale of certain products which initiates changes in the prices in the market. Cooperative behaviour consists in adapting prices to the trends set by the dominant players in the market. If the price leader reduces prices, smaller firms, or those that are unable to influence prices to a significant extent adjust their prices to the pricing policy of the market leader. Cooperative behaviour favours stabilization in the market as well as stabilization of a particular group of suppliers.

Adaptive behaviour, in turn, involves the use of existing price relations in order to arrive at optimal size of sale and profitability. Even if a given company, on account of its market share, could initiate price changes in the market, it avoids this type of behaviour, using the level and structure of prices to maximize the profitability of sales, for example, at the expense of quality of rendered services, reducing expenses on advertising and promotion, etc.

Opportunistic behaviour is characteristic of such companies which use prices for a competition fight in the market. Opportunistic behaviour can be manifested in maintaining the price level in spite of lower prices offered by other companies. A manifestation of this type of behaviour is also the phenomenon of significant price cuts of one’s own products in the situation when the competitors have started a gradual reduction of prices. The competition lowers prices by 10%, so the manifestation of opportunistic behaviour will be lowering prices, for example, by 30–50%, in a manner that is clearly perceived by customers.

Expansion behaviour consists in carrying out such pricing policy which aims at eliminating competitors from the market. This type of pricing strategy assumes even the possibility of incurring losses on sales, paying part of the production costs and selling certain products over such a period which will make the competitor cease the production and sale. After having reached the assumed goal, namely gaining the dominant position in the market, the monopolist changes the pricing strategy by raising prices to a level which guarantees high revenues from the sale. Expansion behaviour is economically risky it entails considerable financial expenditure with no guarantee of success, if competitors are able to take

<sup>3</sup> Compare: P. Kotler, *Marketing. Analiza, planowanie, wdrażanie, kontrola (Marketing. Analysis, Planning, Implementation, Control)*, Wydawnictwo Gebethner & S-ka, Warszawa 1994, p. 16; see also: R. Oczkowska, *Przedsiębiorstwo na rynku międzynarodowym. Uwarunkowania strategii internacjonalizacji i globalizacji (Enterprise in the International Market. Conditions of Internationalisation and Globalisation Strategies)*, Wydawnictwo KSW, Kraków 2007, p. 127.

a risk of a price fight. Expansion behaviour in the form of, for example, drastic reduction in prices over certain period of time, sometimes constitutes a specific educational measure for competition, a warning against attempting a price fight with a large player in the market.

In practice large companies often apply some basic pricing strategies in the international market, such as: the strategy of low prices, high prices, market penetration; concentration, market gap, imitation, outdistancing, etc<sup>4</sup>.

The strategy of low prices enables the company to reach a wide range of buyers. This strategy takes into account the economies of scale and assumes cost minimisation in all phases of the product life cycle. The strategy of low prices was used by many companies in the 1970s in relation to relatively simple products in terms of technology. Currently, many manufacturers of products which are technologically sophisticated also apply the strategy of low prices, trying to minimize the cost of production and transport. The strategy of low prices is primarily applied by companies with a strong and stable position in the market, which have spare production capacity, with the possibilities of rapid increase in production scale. Low-price strategy is also used in companies which do not produce a very wide assortment of products. This strategy allows mass production and hence production based on low unit production costs. Mass production also allows standardisation of products and minimization of the costs of spare parts service. Low-price policy must take into account the fact that customers often assume that low price relates to low quality. The disadvantage of low-price strategy is a lack of funds for scientific research and technological progress and for major promotional and marketing campaigns. A strategy of this type cannot be used by small and medium-sized companies over long periods of time and in respect to a wide range of products. Considerably low prices in foreign markets can cause a defensive reaction of the producers operating in a given country, for example in the form of accusations of dumping or by instituting the procedures of protecting the domestic market through various acceptable means of trade policy or measures which support domestic production. The low price of the product also occurs in the strategy of market penetration<sup>5</sup>, the goal of which is to increase the share or gain a dominant position in the market. The essence of this strategy is to launch the goods at a price that customers consider as low and economically attractive. After having reached the assumed market goal, the company tries to gradually raise prices to a satisfactory level. Penetration strategy allows use of the effects of mass production and often discourages potential competitors from entering a given market. Another version of low price strategy is the strategy

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<sup>4</sup> Compare: Budzowski K., *Zarządzanie cenami w handlu międzynarodowym (Price Management in the International Commerce)*, *Manażment – teoria, vyučba a prax 2007*, Katedra manažmentu, Akademia Uzbrojonych sil, generala Milana Rastislava Stefanika, 27–28 September 2007, Liptovský Mikuláš, Conference Materials, pp. 17–31.

<sup>5</sup> According to Kotler, penetration strategy is merely a different term for low-price strategy.

of outdistancing and eliminating the competition, implemented with the aim of controlling the market in a relatively short period of time. By means of lowering prices in advance, the company wants to gain a market leadership position and to drive present producers from the market.

The strategy of high prices is used in reference to luxury goods, which have the most recognized quality by branded manufacturers who have operated in the market for many years and whose products have always been associated with high quality. The policy of high prices, supported by patent and licence protection, is used by producers who are interested in high quality of their products, creating a qualitative image of the company<sup>6</sup>. The policy of high prices is oriented at selective, demanding, but not price-sensitive customers. The highest quality products are sold in exclusive showrooms for selected customers, and they are hardly ever the subject of post-season sales. The strategy of high prices allows generation of enough resources for further research and development, for launching different innovative products, modern in terms of technology. The strategy of high prices requires the application of various types of protection against competition, continuous research, funding technological progress. Products sold at high unit prices in the initial phase of their life cycle are manufactured in small production series, making their standardisation difficult. The success of an innovative product forces competitors to accelerate their own research and, sometimes, leads to attempts at imitation, counterfeit manufacturing, etc. An example of the latter is a strategy of imitation which involves launching the same product on the market as the competitor's product which is in demand among customers, but under a changed name or in a different package, often at a lower price, with the use of similar distribution channels, for example, in a chain of supermarkets, to avoid marketing costs connected with launching the product on the market. The companies that are market leaders in introducing new products sometimes use skimming pricing<sup>7</sup>, which also consists in setting a high price for a new product. This strategy allows them to derive additional profits from a peculiar "innovation annuity". A scraping prices policy is used by international global companies which introduce market innovation; they launch a new product at a relatively high price and by means of this they reach a highly selected narrow group of clients in many countries. This strategy is also applied by manufacturers producing technologically advanced merchandise as well as by market innovators who enjoy a well-established position in the market.

Companies which have the ability neither to act flexibly nor to react rapidly to changes in the market or those which want to avoid confrontation with strong competitors, apply – both in domestic and in foreign markets – concentration strategy in selected market segments and in reference to certain products. This strategy allows them to focus attention on the market with only few com-

<sup>6</sup> H. Nessim, M.R. Dodge, *Pricing Policies and Procedures*, PWE, Warszawa 1997, pp. 124ff.

<sup>7</sup> J. Altkorn associates skimming prices with the strategy of high prices.

petitors<sup>8</sup>. The essential difficulty of concentration strategy is to find a suitable gap in the market, a market niche in which a given company will have the opportunity to operate effectively. The situation in which a company that has introduced a particular product onto the market withdraws from the sale of the latter can result in other competitors entering the market – by means of the strategy of market gap of imitation or innovation type – with the same or a similar product, using already established demand and therefore avoiding expenditure on promotion and advertising and, above all, avoiding costly research needed to develop a technologically innovative product.

One of the most commonly used pricing strategies is imitation strategy, which consists in adjusting one's prices to the level of the prices of the market leader. This strategy is favoured by those companies which enter the market with the product already sold by the competition. Instead of competing over the price, the company undertakes competition in the market by means of aggressive marketing, offering cheaper service, higher product quality, sale in retail chains, a longer warranty period, etc.

Each pricing strategy must take into account the need to diversify the methods of marketing, taking into consideration the specificity of various phases of the product life cycle. In the phase of introducing a product to the market, fixing the price is the most difficult yet the most important element of the company's pricing policy. Determining too high or too low a price may prevent the implementation of strategies for the company's operations because of poor selling or too low profitability of sales. During the growth phase, in which a company increases the size of the sale, the company's pricing and distribution policy should be gradually modified. What can therefore become necessary is the introduction of a discount scheme, the extension of promotional activities, etc. As far as the maturity phase is concerned, the company should begin to prepare itself for a gradual withdrawal from the market. In the stage of withdrawing the product from the market, the pricing policy must be one of the fundamental elements of the distribution strategy; the company must very precisely determine the moment of final withdrawal of the product from the market. In the phase of withdrawing the product from the market, many companies enter the market with another, innovative product. *It should be noted that the company's market position is better if a greater share in the total sales volume is achieved by means of the products in their first stages of the life cycle*<sup>9</sup>.

In the last century, transnational corporations increasingly began to use a special system of pricing, namely transfer prices, in settlements between companies forming one group that operates in several countries around the world. It should be borne in mind that transactions between related entities constitute

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<sup>8</sup> A. Sznajder, *Strategie marketingowe na rynku międzynarodowym (Marketing Strategies in the International Market)*, Wydawnictwo Naukowe PWN, Warszawa 1992, pp. 112–115.

<sup>9</sup> Compare: L. Garbarski, I. Rutkowski, W. Wrzosek, *Marketing*, PWE, Warszawa 1992, p. 221.

about two-thirds of world trade. When analysing transactions between related business entities, it can be noted that the latter entail prices by means of which international corporations transfer profit abroad, thus often avoid paying taxes. The mechanism of transfer pricing consists in manipulating prices and costs by means of: understating / inflating the prices of export, understating / inflating the prices of imported materials, raw materials used for the manufacture, charging related entities with licence fees or fees for know-how or agency costs, imposing additional fees for marketing services or promotion of a product or, ultimately, for the research or the implementation services often carried out in another country, which usually do not have any impact on the activity of a given business entity<sup>10</sup>. By means of manipulating prices and costs, companies operating on a global scale realise their own pricing strategy, the aim of which is to obtain the highest possible profits in relation to the whole concern. The process of understating taxes by manipulating prices in transactions with entities related either by equity or family dealings is notorious throughout the world. For this reason, the transfer prices used in transactions between related entities are verified in many countries by tax and customs offices, etc. The use of transfer pricing is also manifested in the form of high fees for the use of licence, know-how, trademarks or marketing services, counselling, preparation of financial analysis, paying extremely high remuneration to foreign boards of directors or foreign members of the board of companies or supervisory bodies, issuing invoices for fictitious purchases in the parent company, etc<sup>11</sup>. Transfer pricing policies are hardly possible to eliminate, thus various activities are undertaken in order to limit the scope and number of disputes with tax authorities in cases involving the implementation of transfer pricing between related business entities (*Advance Pricing Agreement*). The Polish Tax Ordinance Act provides for the possibility of concluding, pricing agreement in relation to the methods of determining transaction prices with related business entities. An interested party, upon a stipulated fee, may obtain a uniform interpretation concerning the prices between related entities and thus avoid future disputes with the Polish tax authorities.

In practice, companies use different pricing techniques<sup>12</sup>. One of the simplest is the one consisting in calculating one's own costs and then adding to them a specific, expected profit margin. The basis of every fourth pricing strategy are fixed and changeable costs taking place at a given manufacturer. The disadvantage of this method is pricing in isolation from market realities. Market pricing is a more commonly used method. This requires the observation of competitors'

<sup>10</sup> A. Błaszczak, D. Frey, 'Pieniądże płyną za granicę. Podatki, wyprowadzanie zysków z polskich spółek' ('Money Goes Abroad. Taxes, Shifting Profit from Polish Companies'), "Rzeczpospolita" no. 58 (5831) of 9.03.2001.

<sup>11</sup> B. Ciszewska, 'Produkcja w Polsce, zyski za granicą' (Production in Poland, Profits Abroad'), "Rzeczpospolita" no. 305(6988) of 30.12.2004.

<sup>12</sup> Compare: P. Hingston, *The Greatest Sales and Marketing Book*, Wydawnictwo Znak-Signum, Kraków 1992, pp. 61–74.

prices as well as the tendencies in the market. The basic pricing strategy in the market of food, consumer durable goods (but less commonly in the case of capital goods), is the strategy of pricing at the level offered by the competition (“comparing competition prices”) or, ultimately, pricing at a slightly higher or slightly lower level than the competition. Pricing according to market methods requires the use of different methods of market analysis, particularly demand, verifying the position and the place of the product in the market (placing one’s own product on the curve of product life cycle) and, above all, researching patterns of market behaviour of the competition. One variant of market methods is the analysis of the prices set by competition or pricing always below the level offered by the competition. In practice, the method of determining the price depends on the management strategy adopted by a given company and pricing policy adjusted to the latter.

Different pricing methods are used in the market of capital goods, especially in the international construction market<sup>13</sup>, where a global, lump sum remuneration or the total price of delivery play the most crucial role. It represents the price which constitutes a payment for carrying out the whole work connected with performing the contract, irrespective of whether it was included in the calculation of the costs or not. In a situation of high inflation, lack of precision of calculating expenses and flat-rate remuneration may constitute a high risk for the contractor. In the long cycle of the investment and in conditions of galloping inflation, it is necessary to insert in the contract, accounted for under a flat rate, a clause concerning price instability or, ultimately, the clause of possible changes of lump sum remuneration. The contractor’s settlement for carrying out the work or services according to flat-rate remuneration is also connected with high risk in case of performing contracts in countries with a high-risk situation, politically or economically unstable. The essence of a flat-rate remuneration consists in the fact that the contractor receives the negotiated remuneration for the work that he has carried out. This price will not change regardless of the time period, duration of investment or the occurrence of unanticipated difficulties with the carrying out the work specified in the contract, etc. In case of currency appreciation, the potential risk is borne by the investor, while in a period of inflation, depreciation of contract currency may pose a risk for the contractor. Unit price contract is similar to lump sum remuneration. The essence of accounting at the unit price is that the price for a unit or work, negotiated by the parties to the contract (for example, the price per linear metre or cubic metre of construction work, construction/assembly work, etc.), provides the basis for determining the remuneration for the performance of the whole work. The price (remuneration) in the amount of return

<sup>13</sup> Tender pricing is of particular importance in the case of a capital goods market, especially in construction/export. A tender consists in a simultaneous, independent submission of pricing proposals in writing (often in sealed envelopes) by the participants. The level of tender prices, which are set during the tender, depends on market conditions, the conditions specified in the tender regulations, the method of organizing the tender, etc.

of the contractor's expenditures is less commonly encountered in the investment market. In this form of payment, the purchaser shall pay the contractor a fee covering the cost of organizing the work as well as a negotiated fee, and he pays all costs and outlays related to the execution of the contract. Concluding contracts in which the remuneration amounts to the reimbursement of the contractor's outlays is burdened with high risk for the purchaser but is beneficial to the contractor. Contracts that entail reimbursement of the contractor's outlays are concluded only in the situation when the purchaser has great confidence in the contractor or, ultimately, when the management and direct supervision of the work performed and billing for work is vested in an independent person (legal or natural), as indicated by the purchaser. Price estimates and approximate pricing are less commonly used in the market (when the parties to the contract set the price on the basis of a pre-determined estimate of work).

A characteristic feature of the international market is that in a short period of time there are large fluctuations in commodity prices. In the long term, the tendencies of price changes depend on transformations in the patterns of consumption, production techniques, science, technology and organization advances as well as on the adopted management strategy, socio-economic goals, etc. Analysis of the trends in prices in the international market allows us to assess economic phenomena and creates the possibility of forecasting the business cycle.

Price is one of the key economic parameters in the activity of every business entity because, on the one hand, it informs stakeholders about the market situation, and on the other hand, it allows the customer to make a proper choice from his perspective. When carrying out pricing policy, one should primarily take into account customer response, the market situation and the pattern of behaviour followed by the competition. Pricing policy in enterprises is subordinate to a particular strategy of management adopted by every business entity. Since the price of goods or services determines the profitability of a particular export transaction, the companies which carry out the export must pursue an active, marketing policy of influencing the market. Proper selection of business partners, channels of supply, impact measures – suitable for a given market – (marketing, promotion), quality of product, quality of rendered service, promptness, innovations and relevant organization of work as well as organizational progress – they all affect the level of export prices which are paid on import and, at the same time, the profitability of foreign contracts carried out in the market.



MAŁGORZATA CZERMIŃSKA

The elimination of barriers to the movement  
of goods within common European Union market  
with a special emphasis on the abolition  
of fiscal barriers

The Treaty of Rome establishing the European Economic Community of 25 March 1957 provided, among others, for a creation of a common market based on the abolition of customs duties and quantitative restrictions on imports and exports of goods between the Member States, as well as any other measures having similar effects, establishing a common customs tariff and common commercial policy towards third countries, removing all possible obstacles of free movement of people, services and capital between the Member States. Under the Treaty, the single market was to be developed gradually in three stages, during the twelve-year transition period, i.e. until the end of 1969.

It should be noted that what was crucial for the creation of a single internal market, besides the Treaty of Rome, was also the Paris Treaty, signed in 1951 by the same group of countries, which established the European Coal and Steel Community. This Treaty, for the first time in the history of Europe, led to the creation of a common – though only sector – market for coal and steel, namely two of the most important raw materials industries in the post-war conditions.

Most of the quantitative restrictions in mutual trade were abolished already in 1961. The process of abolishing tariffs in internal trade was completed in July 1968. The latter also marked the date of establishing a common customs tariff for third countries, which meant establishing a customs union between the Member

States. On January 1, 1970, namely after the twelve year transition period, the Member States of the EEC began implementing the common commercial policy. The latter includes, inter alia, the establishment of a common customs tariff, the use of other measures to protect the internal market, harmonization of export policy instruments, the conclusion of tariff and trade agreements with third countries<sup>1</sup>. The implementation of the free movement of services, capital and persons, however, resulted in a failure. There were still barriers in the movement of goods, such as inconsistent documentation used for customs clearance, border checks at internal borders of the Community, different norms and standards for quality and safety.

The EEC Treaty provisions were insufficient to create a common market. In this situation, the European Commission, upon the initiative of its present President, Jacques Delors (but mostly under the auspices of Lord Cockfield, the Commissioner responsible for internal market), in 1985 introduced the programme of creating the European internal market. The strategy of reaching the single market has been determined by the Commission in its White Paper. The latter described the major barriers hindering the implementation of the common market, ways to eliminate them and a detailed schedule for measures to be taken at the Community and national levels in order to implement the idea of a single market by the end of 1992. The adoption of this programme was combined with the change of the founding treaties, which took place in the form of signing the Single European Act on 17 February 1986 in Luxembourg. It came into force on 1 July 1987. The Treaty set out that the Community shall take the measures necessary to establish the internal market by 31 December 1992. Single internal market was defined as an area without internal frontiers, with the free movement of goods, persons, services and capital. A change in decision-making procedures was implemented for most issues concerning the internal market. Most of the fundamental decisions taken by the EU Council regarding the issue of the internal market, are now taken by a qualified majority and not, as previously – unanimously. The exceptions to this rule relate primarily to fiscal policy, the movement of persons and the employees' interests and rights. By January 1993, the Council adopted more than 90% of the planned legislation, mainly due to a new voting procedure, adopted under the Single European Act<sup>2</sup>.

The subsequent treaties (of Maastricht, Amsterdam) strengthened the status of the single European market. Article B of the Maastricht Treaty states that one of the priority objectives is to “*achieve a permanent, sustainable economic progress, in particular through the creation of an area without internal frontiers, strengthen-*

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<sup>1</sup> M. Czermińska, ‘Swoboda przepływu towarów w Unii Europejskiej – konsekwencje włączenia Polski do wspólnego rynku’ (‘Freedom of Movement of Goods within the European Union – the Consequences of Polish Integration with the Common Market’) [in:] *Wybrane aspekty handlu międzynarodowego (Selected Aspect of the International Trade)*, ed. K. Budzowski, Andrzej Frycz Modrzewski Krakow University College, Kraków 2008, p. 30.

<sup>2</sup> D. Leonard, *Przewodnik po Unii Europejskiej (A Guide to the European Union)*, Wyd. Studio Emka, Warszawa 2003, p.136.

*ing economic and social cohesion and the establishment of economic and monetary union, ultimately with a single currency*<sup>3</sup>. Among the activities designed to bring about the implementation of the objectives listed in the Treaty were also those connected to the implementation of the assumptions of the Single Market. These activities focused, among others, on appropriate improvements to the entry and movement of people within the single market and on ensuring undistorted competition. What was vital for the process of creating a common market were the recommendations for strengthening the economic and social cohesion as well as provisions relating to the creation of economic and monetary union. Eliminating exchange rate risk, greater price transparency and the absence of costs associated with foreign exchange are factors conducive to the realisation of this process.

The freedom of movement of goods is one of the fundamental principles of the internal market and it consists in the unfettered exchange of goods between the Member States. The principle of free movement of goods applies to products from the EU countries and those which were legally introduced into the customs territory of the Community. Free movement of goods can be seen in terms of external aspect, namely from the perspective of the customs tariff and common trade policy as well as internal one, which deals with the common (internal) market. The principle of free movement of goods applies to both industrial goods and agricultural products and foodstuffs. Restrictions on the import, export or transit may be placed only on condition that the latter is justified by public morality, public order and safety, human health and life, animals and plants protection, protection of national property having historical, artistic or archaeological value and the protection of industrial or commercial property or environment protection. None of the imposed restrictions can bear the signs of restriction on trade between countries. The implementation of any restrictions must be always justified.<sup>4</sup>

The introduction of free movement of goods was possible by eliminating barriers that hindered the unfettered movement of goods within the Community. They have been identified – as already mentioned – in the White Paper of 1985 and included physical, technical and fiscal barriers. Physical barriers were understood as border controls and stops on the internal borders as well as a variety of customs documents required when transporting goods through customs borders between the Member States. In addition to serving purely statistical goals, they were also used to verify whether the imported goods met the national requirements for product quality, the content of harmful substances, safety of goods, etc.

Technical barriers are understood as different national systems (technical regulations and standards) related to the requirements of quality, safety, composition, labelling of products, different procedures for placing products on the market

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<sup>3</sup> The text of the Treaty [in:] A. Przyborowska-Klimczak, E. Skrzydło-Tefelska, *Dokumenty Wspólnot Europejskich (European Community Documents)*, Lublin 1994, p. 319.

<sup>4</sup> M. Czermińska, 'Swoboda przepływu towarów w Unii Europejskiej – konsekwencje włączenia Polski do wspólnego rynku' ('Freedom of Movement of Goods within the European Union...'), op. cit., p. 31.

and market surveillance. The problem for the common market were not mere national regulations, since they may in fact be implemented by each country, but rather important differences between legal provisions in particular countries. Technical barriers can be encountered when a producer from one country, in order to sell his product – manufactured in accordance with national regulations – in another Member State, must meet different technical requirements or standards that are in force in that country. Barriers also exist when the product itself must be tested and must undergo certification by the authorities of another Member State. In extreme cases this could mean that the manufacturer would have to provide a different version of his product for each market in order to obtain a certificate of compliance with national standards and to subject his product to control procedures (surveillance) after having launched this product on the market. This, in turn, would primarily entail the need to incur additional costs.

Fiscal barriers relate to different tax systems, the rates, methods of collecting taxes, particularly indirect ones, i.e. mainly VAT and excise duties<sup>5</sup>.

What turned out relatively easy was the elimination of physical barriers in the movement of goods. The elimination of customs duties and charges of similar nature as tariffs imposed on trade between the Member States, constituted the conditions for free movement of goods. The establishment of a customs union required that the EU Member States ceased the internal trade tariffs and refrained in their reciprocal turnover from imposing new customs duties or other fees of similar consequences. The standstill principle, implemented on 1 January 1958, guaranteed that at the moment of a gradual reduction in tariffs, no new tariff protection measures will be implemented.

Common Customs Tariff was established for the first time under the Regulation of the Council of Ministers of 1 July 1968. The rates of customs duty were set on the level of arithmetic average of tariff rates which were in force in four zones of the EEC (France, Germany, Italy, Benelux). The latter also abolished intra-Community customs duties on industrial goods and – from 1 January 1970 – also customs duties on agricultural products<sup>6</sup>. Since 1975, revenue from customs duties has been transferred by the Member States to the Community budget<sup>7</sup>.

In April 1987, the Council decided to accede to the Harmonized Commodity Description and Coding System. Under the next regulation, six-digit Harmonized Nomenclature (HS) has been extended by two more digits of the Combined

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<sup>5</sup> *Unia Europejska. Przygotowania Polski do członkostwa (The European Union. Preparing Poland for Accession)*, ed. E. Kawecka-Wyrzykowska, E. Synowiec, IkiCHZ, Warszawa 2001, p. 122.

<sup>6</sup> Entry into force of the Common Customs Tariff meant that the tariff policy (changes in tariff rates, the use of tariff trade policy measures) was no longer within the competence of the Member States but it was vested in the Council and the European Commission. Administration of the Customs Union is within the competence of the Taxation and Customs Union Directorate-General (TAXUD) of the European Commission.

<sup>7</sup> Since 2001, the Member States are obliged to transfer 75% of customs revenues to the Community budget, 25% remains in the national budget to cover the countries' own costs related, among others, to the functioning of national customs administration.

Nomenclature (CN) and it has been used in the Community's tariff since 1988<sup>8</sup>. Functional version of the tariffs, namely the Integrated Tariff of the European Communities – (TARIC) was implemented together with the Combined Nomenclature. TARIC contains information about duty rates, customs preferences, autonomous tariff measures, namely tariff quotas and tariff plafond, suspension in collecting tariffs as well as information about anti-dumping and anti-subsidy tariffs and quantitative quotas. It is also available in the electronic version and this database is continuously updated.

On 1 January 1988, the so-called Single Administrative Document (SAD) exchanged around seventy different forms of national customs and transport. The latter allowed to save about 60 million customs forms annually. From 1 January 1993, this document has been applied exclusively in trade with third countries<sup>9</sup>. After 1992, the principles of veterinary and sanitary control were modified and transferred from the border crossing to the destination or origin of the supplier. National quotas on imports from third countries were taken place of by quotas for the entire Community, which meant that it became unnecessary to check the origin of goods in the internal trade. As a result of the latter, it became possible to abolish the border controls at internal frontiers of the Community, thus eliminating the delay and stops at the borders and the time of the carriage of goods within the internal market has been considerably shortened<sup>10</sup>.

Abandonment of customs formalities in internal trade since 1993 has led to the introduction of the new trade registration system within the EU – INTRASTAT. This system enables to record intra-Community transactions, not on the basis of border crossing or customs clearance at a different point than the border but on the basis of INTRASTAT declaration. In addition, INTRASTAT system is used to collect the abovementioned data by the authorised bodies, their control, processing and sharing with other authorised entities. Such information is then compared with the information declared by the same people in the VAT declarations. After the entrepreneurs have exceeded the so-called statistical thresholds, they are obliged to prepare this declaration. The statistical thresholds are set separately for imports and exports of goods. The first one, the lowest statistical threshold, is the so-called assimilation threshold. The entity whose turnover of goods within the Community exceeds the value set for this threshold, will be required to provide information on this turnover. Other statistical thresholds are known as specific thresholds. The value set for these thresholds is higher than the one determined for assimilation threshold. In practice, the entities which exceed these thresholds are required to

<sup>8</sup> K. Budzowski, *Ekonomika handlu zagranicznego (Economics of International Trade)*, Acta Academiae Modrevianae, Andrzej Frycz Modrzewski Krakow University College, Kraków 2003, p. 141.

<sup>9</sup> On this account, starting from 1 January 1993, the trade between the Member States is not recorded at the moment when the goods are moved across borders. Information on trade flows within the EU comes from tax returns filed by the enterprises. Ibidem, p. 123.

<sup>10</sup> *Integracja Europejska (The European Integration)*, ed. A. Marszałek, PWE, Warszawa 2004, p. 171.

submit more detailed information about the ongoing turnover of goods with the EU countries than those whose turnover exceeded the threshold of assimilation but did not exceed a specific threshold<sup>11</sup>.

Each country has the right to establish standards and technical requirements for products allowed for internal trade, however in practice such measures are often abused and they often result in introducing trade barriers. In extreme cases, different standards prevent the export of certain goods to a given Member State that had specific technical or safety standards, which forced companies to manufacture products adjusted to the requirements of a particular market.

During the first quarter of a century since the European Communities were established, there was a binding principle of the coexistence of national systems in terms of production standards and eligibility rules for launching goods on the market. Detailed technical standards and regulations developed by the national standardization bodies differed considerably between the Member States and their mutual recognition procedure was cumbersome. The turning point in the matter in question was the judgment of the European Court of Justice of 20 February 1979 on the *Cassis de Dijon* liqueur. The dispute concerned selling the French black currant liqueur, *Cassis de Dijon*, on the German market. The ECJ ruled that the ban on selling the latter in Germany was contrary to the principles of free trade. The ban was introduced because the eighteen percentage of alcohol in the liqueur did not correspond to German standards, according to which, liquor must contain at least 25% of alcohol. The ban on the import of liquor to Germany could be justified neither on the grounds of protecting public health, because the alcohol content of the imported product was lower than in the liqueur produced in the country nor on the grounds of consumer protection, because the label contained the information about alcohol content in the French liqueur. The European Court of Justice ruled then that once the product was manufactured and launched on the market under the law of one of the EC countries, it should principally be allowed in the market of any other Member State – according to the principle of mutual recognition of national regulations, based on trust between different EU countries. This turned out to be a landmark case because from that moment the Member States could not prohibit the introduction of competitive products to their own markets merely because they slightly differed from their own products. It was noted that the national rules in another Member State shall be considered equivalent and the goods – legally delivered and eligible for sale in one market – should be allowed for sale in another market, unless lower level of health, safety or environment protection has been proved. In applying the principle of mutual recognition, therefore, the rule of the country

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<sup>11</sup> In Poland there is a mandatory obligation to prepare INTRASTAT declarations (as of 2008) after exceeding the statistical threshold of assimilation: in import – 500 thousand zlotys, in export – over 800 thousand zlotys – in this case, the declarations are drawn up in a simplified form, or after exceeding the statistical specific threshold: in import – of over 33 million zlotys, in export – more than 49 million zlotys – in such case the entity must prepare a complete declaration, [www.mf.gov.pl](http://www.mf.gov.pl) of 30 March 2009.

of the product origin is the prevailing one. The abovementioned ruling was supplemented by Directive 83/189 concerning the mandatory procedures of notifying the Commission (and the Member States) about the standards and technical regulations prepared at the national level. The Member States are therefore required to provide advance information on the implemented technical regulations and standards. The notifying Member States should take into account potential comments from other countries before the entry into force of the new regulation. The principle of mutual recognition usually requires the cooperation between relevant institutions which certify and test the instruments of the Member States as well as the conclusion of an agreement between the chambers of commerce and/or certification bodies on the mutual recognition of testing and issuing certificates<sup>12</sup>. If the importing country “does not recognise” the product of the exporting country, as a result of a complaint lodged by an individual person, a company, organization or government, the case in question can be ultimately addressed by the Commission to the European Court of Justice. Such proceedings usually end in repealing a relevant regulation or in introducing the principle of mutual recognition. The method of mutual recognition of national rules governs 25–28% of intra-Community trade<sup>13</sup>.

The principle of mutual recognition could not be always applied, particularly in case of considerable differences in the national law. The latter led to mandatory technical harmonization at the Community level. There are two approaches to harmonisation in the EU: the so-called “old approach” or otherwise “vertical approach” and “a new approach”. The old approach (detailed harmonization) stands for the harmonization of national legislation of the Member States through the creation of the EU directives which detail the technical requirements for goods. This approach is called a vertical harmonization since the issued directives include both specific products and their components. The advantage of these directives is an easy identification of a particular product and assessment of its conformity, as these directives lay down detailed requirements (project details, designs, etc.) which greatly facilitate the monitoring of the compliance of the product, namely it only suffices to compare the parameters of a given product with the values set forth in the directives. Development of common standards in the form of detailed directives was very time-consuming and the latter quickly became outdated due to fast technical progress, new production techniques and new products. Further application of the “old approach” did not guarantee a rapid abolition of all technical barriers in the process of establishing a common market. After the adoption of the White Paper, the method of harmonization under the old approach was maintained for the products relevant to the safety of humans, animals and plants. They apply, inter alia, to foodstuffs, chemical products, including detergents, pharmaceuticals,

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<sup>12</sup> J. Hagemeyer, J. Michałek, *Normy techniczne i sanitarne w handlu międzynarodowym. Ich znaczenie w integracji Polski z Unią Europejską (Technical and Sanitary Standards in International Trade. Their Importance in the Polish Integration with the European Union)*, Uniwersytet Warszawski, Warszawa 2007, p. 46.

<sup>13</sup> *Integracja europejska (The European...)*, ed. A. Marszałek, op. cit., p. 173.

motor vehicles, tractors, food, glass, and they altogether relate to about 30% of the intra-Community trade<sup>14</sup>.

Council Resolution of 7 May 1985 (85/C 156/01), introduced a new approach to technical harmonization and standardization (New Approach – NA). This resolution stated that the directives were fundamental legislative acts of harmonization because, in fact, they define the objectives to be achieved, leaving to the discretion of the Member States the measures to achieve them. Standardization rules issued henceforth do not contain detailed, but rather general standards of health and the environment. Detailed solutions are included in the standards and technical regulations which are not of a mandatory character. The latter are prepared by three institutions: the European Committee for Standardization (CEN) – general norms, the European Committee for Electrotechnical Standardization (CENELEC) – electrotechnical norms and the European Telecommunications Standards Institute (ETSI) – the standards in the telecommunications sector. The European standards (CEN, CENELEC, ETSI) are usually closely related to international standardization and they are adopted as national standards in the EU countries<sup>15</sup>.

Each of the directives of the “new approach” defines the scope of products which are subject to its regulation. It is common that there are lists of exceptions and the essential safety requirements which the product must meet are usually included in the annexes. As previously stated, the issues regulated in the directives, are formulated in a general way so that they could possibly cover all the cases relating to their subject matter. Mandatory assessment of conformity of the products with the standards – including all manufacturers and distributors – is to ensure that the goods launched in the market are safe for human health and life and they are not dangerous for the environment. Compliance with these standards is a prerequisite for the sale of these goods within the common market. The manufacturer who introduced the product on the market should check whether it is subject to the new approach directives. If the product falls within the scope of the directive, the manufacturer may apply for an assessment whether the product conforms with its requirements. There are around three thousand notified bodies in the EU that verify the conformity of the products with the new approach directives. The new approach entailed the need to streamline the procedures for conformity assessment in the form of modular solutions. The latter means dividing the conformity assessment procedures into a number of separate operations (modules). The procedures for assessing conformity of products with the requirements of the directives or standards are based on eight modules (A to H), each of which describes a more or less complicated procedure<sup>16</sup>:

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<sup>14</sup> Ibidem, p. 172.

<sup>15</sup> M. Czermińska, ‘Swoboda przepływu towarów w Unii Europejskiej – konsekwencje włączenia Polski do wspólnego rynku’ (‘Freedom of Movement of Goods within the European Union...’), op. cit., p. 35.

<sup>16</sup> C. Zucker, S. Wernicke, *Prawo Europejskie w pytaniach i odpowiedziach (The European Law in Questions and Answers)*, Wyd. Prawo i Praktyka Zawodowa, Warszawa 2001, p. 153.

- Module A – internal production control;
- Module B – researching the properties of the model (EC);
- Module C – compatibility with the model;
- Module D – production quality assurance;
- Module E – guarantee of product quality;
- Module F – product review;
- Module G – unit review;
- Module H – full quality control.

Every respective letter of the modules stands for a greater complexity of the procedure. A module is accompanied by the simplest procedure of internal control of production: the manufacturer declares that his product complies with the essential requirements of a specific directive and this declaration is included in the documentation accompanying the product. Module B, in turn, requires a certificate confirming the properties of the model (EC research). Module C constitutes an extension of this procedure: the manufacturer himself declares the conformity with the model. In addition, the manufacturer's declaration may be supplemented with the product testing carried out by a notifying unit (module F), a control of production conformity with the European standards (EN) – ISO 9002 (module D) and ISO 9003 (module E). In case of a full quality control – Module H – it is required that a system of product design and production organization meet all the criteria laid down in the harmonized standard of EN ISO 9001.

Module selection depends mainly on the properties of a particular product, more complex products require a more complex procedure of conformity assessment.

New Approach Directives require that the manufacturer issues a declaration of conformity, in which he shall certify that the product complies with essential requirements. This declaration contains, *inter alia*, the manufacturer's name and address, identification of the product and the directives which the product complies with. After these requirements have been fulfilled the CE label can be placed on the product. This label stands for the product conformity with the European Union regulations, which are applicable in the case of a given product. Affixing the CE mark on the product constitutes the manufacturer's declaration that the product complies with all EU rules which the product is subject to and that the latter met all the compliance procedures. If the product is subject to several directives of the new approach, the CE mark ensures that all the requirements of all these directives were fulfilled. Thus, the CE mark does not necessarily constitute a certificate of product quality but it only informs about its compliance with certain standards. However, if the product sold in the market does not meet the basic requirements set forth in the standard, it should be withdrawn from the market. For example, the toys safety directive states that “where a toy does not meet basic safety requirements [...], the Member State that finds such a fact, must take appropriate steps to withdraw the

product from the market or prohibit its placing on the market”. This is a situation of safety risk in typical conditions of using the product, “when toys are used as intended or in a foreseeable way, bearing in mind the normal behaviour of children”<sup>17</sup>.

So far more than twenty new approach directives have been adopted concerning, among others, toys, simple pressure vessels, machinery, personal protective equipment, non-automatic equipment weight, medical implants, gas-burning appliances, telecommunications equipment, packaging, explosives used for non-military purposes, pleasure boats, low voltage devices such as household appliances<sup>18</sup>, cranes, cableways, building materials, electrical devices, medical implants.

As far as the process of standardization in the European Union is concerned, great importance was attached to the foodstuffs. Consumers from the Member States demanded that only products which are safe for health were allowed for the market. An outbreak of BSE and foot and mouth disease as well as the discovery of carcinogenic dioxins in food products have increased the need for consumer protection, therefore the years 200–2001 provided for more than 500 EU directives<sup>19</sup>.

The entire food production process was subject to control – from preparation, through processing, manufacturing and packaging to the storage and transport – verifying at every stage whether this process complies with hygiene, whether the products are properly stored and do not contain excessive amounts of fertilizers, pesticides, etc. The monitoring of food production was referred to as Hazard Analysis and Critical Control Point – HACCP.

The process of harmonization of fiscal system and eliminating fiscal barriers in the movement of goods started from indirect taxes. The Member States in the late 60’s and 70’s followed the French pattern and introduced value added tax (VAT), which replaced previously used turnover tax<sup>20</sup>. The tax on goods and services (Value Added Tax) is an indirect tax which, by its definition, has a minimal effect on the final price of goods and taxable services (through its “transferability” on the next phase of the turnover). It is levied on net sales carried out by respective entities, it is characterized by the so-called “calculate – deduct” mechanism, which consists in the fact that at every level of the turnover, one takes the amount of tax due on the realized value of the sale and deducts the amount of tax included in the

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<sup>17</sup> *Toy Safety Directive. The Introduction of Toys to the EU Market. Technical Requirements*, Warszawa 1998, p. 14.

<sup>18</sup> The so-called Low Voltage Directive (73/23/EEC) was adopted in 1973. It applies to all appliances except high-voltage electrical equipment and power plant equipment. Leading European producers, in cooperation with CENELEC, have adopted common rules for safety and mutual recognition of standards and testing procedures in other countries. Compare J. Hagemeyer, J. Michałek, *Normy techniczne i sanitarne w handlu międzynarodowym. Ich znaczenie w integracji Polski z Unią Europejską (Technical and Sanitary Standards...)*, op. cit., p. 49.

<sup>19</sup> See: *Standards and Certifications in Poland and in the European Union, Namely Polish Goods on the Common Market*, PWE, Warszawa 1999, p. 13.

<sup>20</sup> It took place under two directives: Council Directive 67/223/EEC of 11 April 1967 (OJ L 71/67) and Council Directive 67/228/EEC of 11 April 1967 (OJ L 71/67). The former defines, inter alia, the essence of VAT. The adoption of this tax was obligatory in all Member States. The second directive governs the structure of the new tax system.

prices of purchased raw materials, goods and services. The amount of charge in case of VAT does not depend on the number of phases of the turnover but on every respective increase in the taxable value of the product. Thus, the amount of charge in a particular phase of the turnover depends on the added value, that is net value. This avoids collecting the tax from the tax and thus eliminates the increase and accumulation of taxes.

Sixth Council Directive of 17 May 1977 was crucial for the establishment of a unified structure of VAT in the Member States<sup>21</sup>. It regulates the basic elements of the tax structure, namely the subject and object of taxation, the tax base, its chargeability, the categories of tax exemptions, the moment when tax liability is created. In addition, the abovementioned directive sets out rules for the taxation of exports and imports, specific rules for the taxation of small businesses, travel agencies and agriculture. The annexes H and K of the Sixth Directive set out a list of goods for which the Member States may apply a reduced rate. The latter includes, among others, groceries, with the exception of alcohol, energy for heating and lighting, water supplies, medicines, books and periodicals and passenger transport.

The significance of the Sixth Directive is not only notable because it substantially harmonized VAT base in all Member States but also because it allowed for considerable financial autonomy of the Communities. The system of contributions paid by the Member States has been replaced by the Communities' own revenues, which, among others, consisted in the part of revenue from value added tax paid to the Community budget<sup>22</sup>. These solutions were not sufficient, however, to ensure a neutral impact of indirect taxes on trade and other areas of economic cooperation between the Member States.

In the second half of the eighties, when the internal market was created, the Commission proposed a uniform solution in terms of indirect taxes, including the harmonization of VAT rates. The realization of the latter failed, however, due to divergent interests of individual Member States.

In October 1992, the Council issued further guidance on the approximation of value added tax and it stipulated that the base rate may not be less than 15% and reduced rate (one or two reduced rates may be used) – not less than 5%. At the same time, the Member States were obliged to undertake a progressive harmonization of the level of base rates, recommending a reduction of the existing range to 5%. Since the EU Member States failed to achieve the recommended reduction of VAT rate differences, the Commission allowed for the extension of the scale of the basic rate to 15–25%. The lowest rate, equal to a maximum agreed by the countries, i.e. 15%, applies in Luxembourg and Cyprus, it is also low in Spain – 16%. The coun-

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<sup>21</sup> See: Council Directive 77/388/EEC of 17 May 1977 (OJ L145/77) which entered into force in 1979. It was amended by Council Directive 91/680/EEC of 16 December 1991, supplementing the common system of value added tax and providing for the abolition of fiscal frontiers (OJ L 376/91).

<sup>22</sup> In the current financial perspective, i.e. for the period 2007–2013, the Member States are obliged to pay into the Community budget 0.3% of VAT revenue.

tries with the highest VAT rates are Denmark and Sweden, namely it amounts to 25% (see Table 1). There are some permanent exceptions, that is derogations, from these general principles and some Member States have obtained transition periods to adjust their rates to the adopted rules. Transition rates were to be effective not later than to 31 December 1996, in practice, however, they are still used in some Member States. Furthermore, there was a transitional arrangement whereby goods are subject to VAT in the country of destination according to the current rates in this country. The exception to the latter are goods purchased by individuals, in this case, VAT is payable at the time of purchase, according to the rates applicable in this country (it does not apply to the purchase of new cars). In the future, the whole of the Union's internal trade turnover is to be taxed in the country of origin of goods/services, with the exception of the turnover which is not subject to VAT.

Significant differences in VAT rates between the Member States affect various price ranges between these Member States. If this applies to neighbouring countries, it may encourage shopping in the latter, since the VAT rate (and price) is lower.

New documents and procedures necessary to record the turnover volume for tax purposes and tax exemptions in exports were implemented since 1 January 1993, with the establishment of the internal market and the abolition of border controls in trade within the Community. Every VAT taxpayer has a unique number for intra-Community trade which was granted by the tax authorities in a particular EU Member State which is the state of registration for tax purposes. VAT taxpayer who participates in intra-Community transactions must use his VAT identification number with two-letter country code. As far as trade between enterprises (VAT payers) is concerned, the goods – as previously stated – are subject to VAT in the destination country, i.e. the tax is payable by the purchaser, at the rates applicable in his country. By contrast, the seller (exporter) applies a zero VAT rate, so that goods are not subject to double taxation.

The need for harmonization of excise tax, as in the case of VAT, resulted from aiming at the abolition of fiscal frontiers in trade between the Member States and ensuring the neutrality of the tax system in terms of impact on trade. Harmonization of excise duties in the Community proceeded slowly, due to large differences in the structure and the level of rates in different countries. The first step was to extend the standstill clause on excise duty and thereby introduce a ban on increasing the latter. The European Commission then carried out the selection of excise duties, dividing them into the duties to be repealed, excise duties to be incorporated into value-added tax and excise duties subject to harmonization.

Common system of imposing excise tax came into force with the establishment of an internal market, i.e. from 1 January 1993. Similarly like in case of harmonizing VAT, it was not possible to establish uniform rates of this tax in all Member States. What was therefore agreed was a uniform principle of excise duty dimension and the level of the minimum rates in case of the so-called harmonized excise goods. Excise duty applied to three groups of commodities: alcoholic prod-

Table 1: VAT rates in the European Union (as of 1 July 2008)

| Country        | Reduced rate | Standard rate | Transitional rate |
|----------------|--------------|---------------|-------------------|
| Belgium        | 6 / 12       | 21            | 12                |
| Bulgaria       | 7            | 20            | –                 |
| Czech          | 9            | 19            | –                 |
| Denmark        |              | 25            | –                 |
| Germany        | 7            | 19            | –                 |
| Estonia        | 5            | 18            | –                 |
| Greece         | 9            | 19            | –                 |
| Spain          | 7            | 16            | –                 |
| France         | 5,5          | 19,6          | –                 |
| Ireland        | 13,5         | 21            | 13,5              |
| Italy          | 10           | 20            | –                 |
| Cyprus         | 5 / 8        | 15            | –                 |
| Latvia         | 5            | 18            | –                 |
| Lithuania      | 5 / 9        | 18            | –                 |
| Luxembourg     | 6 / 12       | 15            | 12                |
| Hungary        | 5            | 20            | –                 |
| Malta          | 5            | 18            | –                 |
| Netherlands    | 6            | 19            | –                 |
| Austria        | 10           | 20            | 12                |
| Poland         | 7            | 22            | –                 |
| Portugal       | 5 / 12       | 20            | 12                |
| Romania        | 9            | 19            | –                 |
| Slovenia       | 8,5          | 20            | –                 |
| Slovakia       | 10           | 19            | –                 |
| Finland        | 8 / 17       | 22            | –                 |
| Sweden         | 6 / 12       | 25            | –                 |
| United Kingdom | 5            | 17,5          | –                 |

Source: [ec.europa.eu/taxation\\_customs/resources/documents/taxation/vat](http://ec.europa.eu/taxation_customs/resources/documents/taxation/vat) of 20 March 2009.

ucts, mineral oils (e.g. petrol, diesel). In addition, the Member States that did not impose excise duty on these goods were obliged to introduce it. The Member States may also apply excise duty in respect of other goods, provided that it will be non-discriminatory and, therefore, the level of rates and the rules of imposing this tax on foreign goods cannot be worse than those on similar goods of domestic origin.

Minimum rates of excise duty on mineral oils amount to as follows: for leaded petrol – 337 EUR per 1000 litres, for unleaded petrol – 287 EUR per 1000 litres, for diesel – 245 EUR per 1000 litres, for fuel oil – 18 EUR per 1000 litres, for liquefied natural gas and methane – 100 EUR per 1000 kilos, for kerosene – 245

EUR per 1000 litres<sup>23</sup>. In turn, the minimum rates for spirits are, respectively<sup>24</sup>: 0 EURO per 1 hl of sparkling and still wine, 0.748 EURO for 1 hl degree Plato or 1.87 EURO per 1 hl of finished product, 45 EURO per 1 hl of intermediate product, 550 EURO per 1 hl of pure alcohol and alcoholic beverages.

As for tobacco, excise tax is charged to both tobacco and tobacco products. The minimum excise duty on cigarettes has been set at 57% of the retail price, including all taxes on cigarettes (including VAT), which are in the greatest demand (prices valid as of 1<sup>st</sup> January each year)<sup>25</sup>. From July 2002 to July 2006, a minimum excise duty was gradually introduced and the latter was set at 64 EUR per 1000 cigarettes<sup>26</sup>.

Council Directive 2003/96/EC of 27 October 2003, introduced with effect from 1 January 2004 the principles of imposing excise duty – harmonized at the EU level – on energy products and electricity, thus it applies to all types of fuels (and not only, as previously, to liquid fuels, but also gas, coal, coke) and electricity<sup>27</sup>. This directive lays down minimum rates of excise duty on all types of fuel (see Table 2). Accordingly, excise duty shall be imposed only on energy products used as fuel for engines or for heating purposes. The directive allows the rate of 0% for renewable energy sources such as biogas or electricity generated by wind. The Member States may be also exempt from excise duty on energy products and electricity used, among others, by railways, passenger or commercial inland waterways transport.

The abovementioned excise duty has contributed to the rising prices of fuel and electricity, especially in those countries where there was previously no excise duty on such products.

In the case of goods on the list of harmonized excise goods, countries must collect the excise duty at any rate, however, it cannot be lower than provided by the Community.

Similar to VAT, excise duty is imposed on all the goods that are covered by this tax and which are traded, i.e. manufactured within the EU or imported from third countries. Excise duty is levied at the moment of allocating goods for consumption, which in practice usually means the moment of transferring goods from warehouses to retail. It is paid to the budget of the country where the purchaser has his seat, at the rates applicable in this country. Excise duty on goods purchased by individuals for their own use and transported by them to another EU country is levied in the country in which they were acquired.

<sup>23</sup> Council Directive 92/82/EEC and 92/80, 19 October 1992, OJ L 316/92.

<sup>24</sup> Council Directive 92/84/EEC of 19 October 1992 on the approximation of excise duty on alcohol and alcoholic beverages, OJ L 316/92.

<sup>25</sup> Council Directive EEC 92/78, 92/79 and 92/80, all of 19 October 1992 (OJ L 316/92).

<sup>26</sup> The current minimum tax rate on cigars and cigarillos is 5% of the selling price or 11 EUR per 1000 pieces or kg for finely cut tobacco – 33% of the selling price or 29 EUR per kg; for all other types of tobacco – 20% of the selling price or 20 EURO per kg; 02/10/EC Council Directive of 12 February 2002, amending Directives 92/79/EEC and 95/59/EC in relation to the structure and rates of excise duty applied to tobacco products.

<sup>27</sup> Council Directive 2003/96/EC of 27 October 2003 (OJ. EU L 283 of 31 October 2003).

Table 2: Minimum rates of excise duty on fuel used for heating and electricity

| <b>Fuel used for heating and electricity</b> | <b>Minimum rate from 1 January 2004 (industry)</b> | <b>Minimum rate from 1 January 2004 (individual consumers)</b> |
|--|--|--|
| Diesel (EUR/1000 l)                          | 21   | 21   |
| Heavy fuel oil (EUR/t)                       | 15   | 15   |
| Kerosene (EUR/1000 l)                        | 0  | 0  |
| LPG (EUR/t)                                  | 0  | 0  |
| Natural gas (EUR/GJ)                         | 0,15   | 0,3  |
| Coal and coke (EUR/GJ)                       | 0,15   | 0,3  |
| Electricity (EUR/MW)                         | 0,5  | 1  |

Source: Directive 2003/96/EC.

Products which have been marketed in one Member State and are held for commercial purposes in another – are subject to excise duty in the country where they are stored. In the European Community, the production, processing and storage of excise goods are controlled by the competent authorities of the Member States and until the tax has been paid, they are carried out in excise warehouses. The opening and operation of such excise warehouse must conform to the requirements that are imposed by the country where the goods are stored and the person who is in charge of such excise warehouse must follow certain obligations, inter alia, to guarantee production, to pursue relevant documentation, to submit to the control of production and stocks. In order to monitor the movement of goods, electronic databases are created. The latter include: CREED (which covers authorised owners of excise warehouses, registered traders and the register of authorized excise warehouses), MVS (verification system of excise goods movement) and EWS (early warning system of excise duty)<sup>28</sup>.

The process of creating a single European market began with the establishment of the European Economic Community and it still continues in the form of abolishing existing restrictions on the movement of goods, persons, services and capital. What has been of utmost importance for creating a common market was the announcement in June 1985 by the European Commission of the White Paper, which set the date of implementing the creation of a common market by 31 December 1992. The White Paper identified physical and technical barriers which impeded the flow of goods, services, people and capital. The basic assumptions of the single market as an area without internal frontiers were achieved on 1 January 1993. The activities of establishing the single market require the introduction of indispensable regulations and development of appropriate programmes. One crucial programme which was formulated concerned the abolition of existing barriers

<sup>28</sup> E. Komarecka, T. Kulinić, *Akcyza w 2003 r. (Excise Duty in 2003)*, Difin, Warszawa 2003, p. 146.

and undertaking appropriate activities to support the implementation of the Treaty principles of the common market (expressed in the Single European Act).

One of the fundamental freedoms of the common market within the European Union is the free movement of goods. In order to enable it, it was necessary to eliminate physical, technical and fiscal barriers. It seems that over the years, it is the free movement of goods within the single market that has been the most fully realized. Physical barriers were removed, there has been a substantial progress in the field of technical harmonization and the elimination of technical barriers. The least spectacular achievements, however, can be noted in the elimination of fiscal obstacles related to the functioning of taxes. However, there are also some successes in this respect, namely the harmonization of indirect taxes, i.e. VAT and excise duties. In the case of VAT, there was unification of the basic elements of this tax, namely the subject and object of taxation, the tax base, its chargeability, the categories of exemptions from the tax liability and the moment when the liability to pay the tax arises. It has been also assumed that the base rate may not be less than 15% and reduced rates (one can use one or more reduced rates) – not less than 5%. In the case of excise duty, there is a list of the so-called harmonized excise goods that are subject to minimum rates of excise duty. Apparently, the process of removing fiscal barriers through the harmonization of taxes in the European Union has not yet been completed and will certainly continue.

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WOJCIECH ZYSK

## The world financial crisis as an opportunity of foreign direct investment inflows to the countries of Central and Eastern Europe

In Polish language, the word “crisis” has a significantly pejorative connotation. It is associated with such condition which often has to end in a disaster of earlier equilibrium period. One “recovers” after crisis. To take the example of the experience of a bygone era of business in our country, we know that one recovered from one stage of the crisis only to enter another.

In Chinese language, on the other hand, the word crisis is represented by two characters: Wei and Ji. Picture no. 1 presents both of them.

Picture no. 1. Transcription of the word “crisis” in Chinese language



Source: <http://www.pinyin.info/chinese/crisis.html> of 29 June 2009.

The former one stands for danger, whilst the latter for a chance, opportunity, hidden possibilities, crucial moment, pivot<sup>1</sup>.

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<sup>1</sup> Compare: An interview with Sun Rongmin, China’s ambassador in Poland, [www.zwrp.pl](http://www.zwrp.pl) of 29 June 2009.

It seems reasonable to say that the current financial and economic turmoil in the world offer a chance to use the second face of the crisis. It can be applied in increasing the volume of capital inflows in the form of foreign direct investment (FDI), which can take place in our part of Europe. This article will attempt to defend such a hypothesis.

What has become an expression of globalisation processes was an extremely dynamic, international flow of funds which finance the act of undertaking and developing economic activities, including FDI flows. The global annual flows of foreign direct investment have increased from the amount of U.S. \$ 650 billion in 1998 to over 1800 billion in 2007<sup>2</sup>. What accompanied the latter phenomenon was an increasing wave of cross-border mergers and acquisition of enterprises. The value of such transactions increased from \$ 85 billion in 1990 to over 1600 billion in 2007<sup>3</sup>.

The processes of political transition in the countries concerned and its aspects – being a part of economic policy – affect the changes in ownership structure of these economies. They consisted in private sector growth through<sup>4</sup>:

- freedom to create new businesses;
- development of cooperatives;
- re-privatization of enterprises;
- privatization of state enterprises;
- agreement to create joint ventures.

Foreign capital in the form of FDI – which has been inflowing to the countries in our part of Europe from the beginning of the nineties of the twentieth century – had (and still has, especially after the accession to the EU) a considerable influence on the course of abovementioned economic processes. The processes of integration with the European Communities resulted in a number of advantages for the countries at issue and they, among other things, included<sup>5</sup>:

- increasing trade turnover (due to the effect of trade creation and transfer of trade);
- increasing the profitability of export (less transaction costs after the abolition of customs duties and the cost of crossing the border);
- influx of new technologies and management methods;

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<sup>2</sup> Compare: World Investment Report 2008, Transnational Corporations and the Infrastructure Challenge, www.unctad.org of 20 June 2009.

<sup>3</sup> Ibidem.

<sup>4</sup> Compare: S. Swadźba (ed.): *Systemy gospodarcze krajów Europy Środkowowschodniej (Economic Systems of East – Central Europe Countries)*, Wydawnictwo Uczelniane AE im. K. Adamickiego, Katowice 2003, p. 16.

<sup>5</sup> Compare: E. Latoszek (ed.): *Integracja europejska w perspektywie XXI wieku: wyzwania dla Polski (European Integration in the 21<sup>st</sup> Century Perspective: Challenges for Poland)*, Wydawnictwo Elipsa, Warszawa 2003, p. 86.

- capital inflows in the form of FDI (both in the form of *greenfield* and *brown-field investment* as well as mergers and acquisitions).

FDI inflows to the countries in question are presented in Table 1.

Table 1: The cumulative FDI inflows to Poland, Czech Republic, Hungary and Slovakia per capita in the years 1996–2007 (in billion USD)

|                | The cumulative FDI inflows (in billion USD) | Number of people (mln) | FDI per capita (USD) |
|----------------|---|------------------------|----------------------|
| Slovakia       | 22,5  | 5,39                   | <b>4175</b>          |
| Czech Republic | 64,8  | 10,28                  | <b>6302</b>          |
| Hungary        | 49,3  | 10,07                  | <b>4902</b>          |
| Poland         | 111,4                                       | 38,13                  | <b>2923</b>          |

Source: prepared by the author on the basis of the Demographic Yearbook 2008, [www.stat.gov.pl](http://www.stat.gov.pl) dated 20 February 2009, the latest data on the population of the countries in question are available as of 2006.

What should be noted, however, is the depletion of typical and traditional factors of these countries' competitive advantage of capital investment in the form of FDI:

- the period of economic transformations and transformational changes;
- the process of liberalising and opening up the economy;
- the entry into force of useful legal regulations;
- the possibility of privatization (lower attractiveness of privatization offers);
- discounts and preferences;
- relatively low labour costs and other factors of production;
- regulations regarding special economic zones.

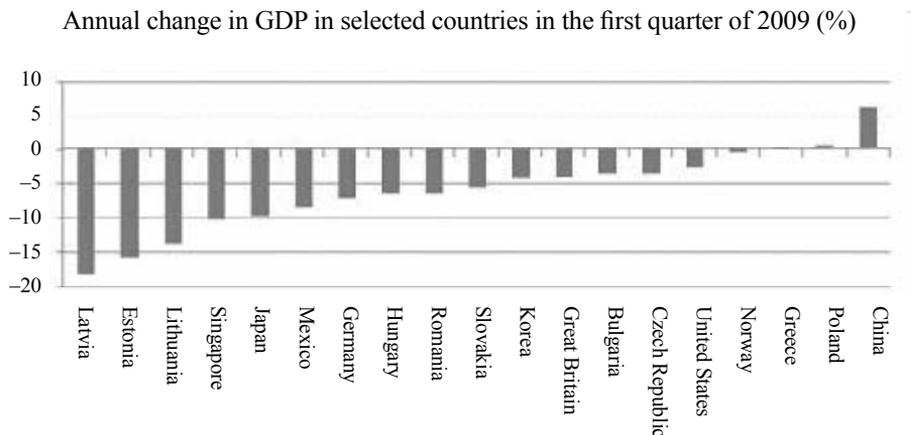
One can bet a theoretical question: when is it best to buy? One of the answer might be as follows: buy when it is cheap. It is hard to deny the thesis that the current crisis results in low valuation of Polish, Slovak, Czech or Hungarian companies, and this may encourage an increasing number of mergers and acquisitions planned by foreign investors.

What other factors could lead to increased interest of foreign investors in our part of Europe? According to the author of this paper they are as follows:

**1. Relatively good situation in terms of annual changes in GDP in the first quarter of 2009** as compared with other countries, as shown in Figure No. 1.

As shown in the chart above, Poland has a positive value (0.8%), Czech Republic – 3.4%, Slovakia – 5.4% and Hungary – 6.5%. However, in comparison with others (e.g. traditional places of FDI investment: U.S., Germany, United Kingdom), the countries in question do not fall out the worst.

Figure 1.



Source: data of the countries' statistical offices, [http://www.stat.gov.pl/gus/eurostat\\_PLK\\_HTML.htm](http://www.stat.gov.pl/gus/eurostat_PLK_HTML.htm) of 20 June 2009.

## 2. Growth forecasts for the years 2009 and 2010, according to the International Monetary Fund, as shown in Figure No. 2.

As shown in the above chart, in 2009 Poland had a negative value (−0.7%), however in 2010 – positive one (1.3%). Slovakia respectively: −2.1% and 1.4%, Hungary: −3.3% and −0.4%, while the Czech Republic −3.5% and 0.1%. Again, in comparison with other countries we are at the forefront of the research.

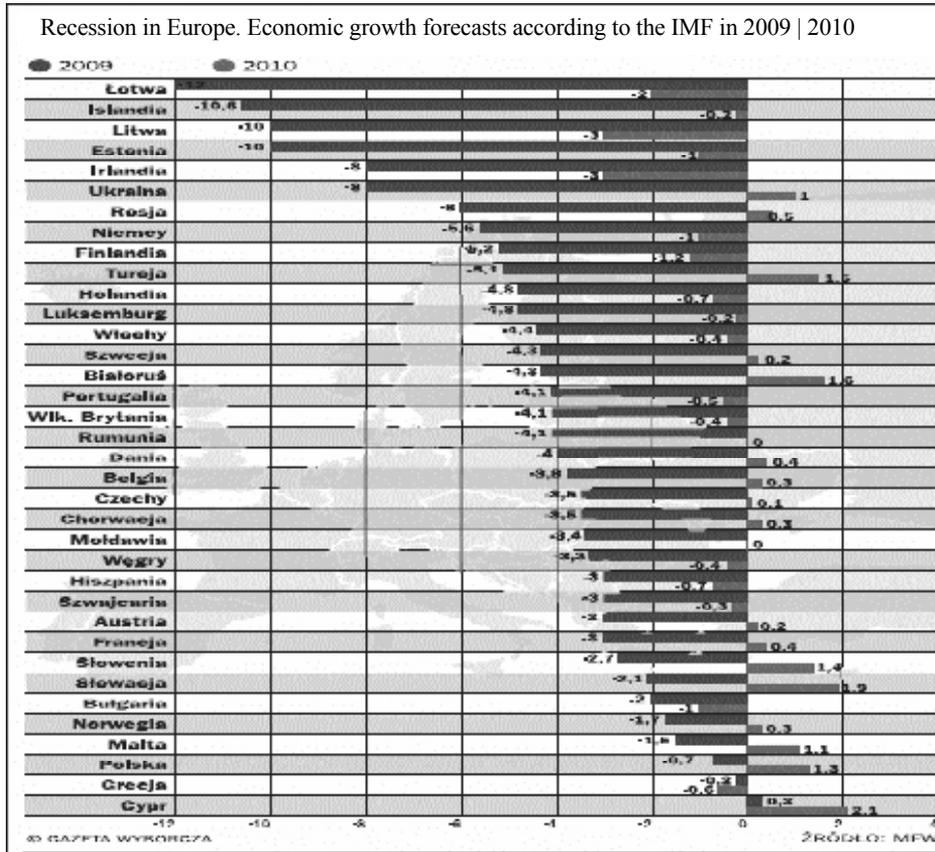
**3. Membership of the countries in question in the European Communities.** From the standpoint of international trade and customs regulations our country is in the area of customs union, and when capital in the form of FDI is invested in the latter, then the production goes without customs barriers to the market of 500 million consumers. It is an opportunity to attract investment in the form of FDI from Japan (Bridgestone is already present in Poland), South Korea, China and India, since the goods produced in the area of customs union do not encounter obstacles of customs duty (which would be the issue in case of import into the EU).

**4. There are still relatively low labour costs**, especially in case of weak currency of the countries in the Central and Eastern Europe region.

**5. Holding off the process of the EU enlargement** despite the Eastern Partnership<sup>6</sup> and the negotiations with Turkey and Croatia.

<sup>6</sup> Polish and Swedish initiative on the EU forum. The invitation of Ukraine, Belarus, Moldova, Azerbaijan, Armenia and Georgia for a wider cooperation with the EU, including, among other things, the visa facilitation and creation of a free trade area. It is widely accepted that this may be those countries' contribution to membership in the European Communities. Compare: [http://www.msz.gov.pl/Partnerstwo\\_Eastern](http://www.msz.gov.pl/Partnerstwo_Eastern), 19887.html.

Figure 2.



Source: www.gazeta.pl of 20 June 2009.

**6. The views of opinion-forming professionals.** Robert Zoelick, World Bank President, claims that Poland and the whole region must take into account a drop in foreign investment, but it will be rather a short-term ailment<sup>7</sup>. By contrast, Anton Janes, head of Sal. Oppenheim investment banking (investment bank which is emerging in the markets of the Central and Eastern Europe) believes that Poland, the Czech Republic and Hungary will become important regions of activity of this institution<sup>8</sup>. According to UNCTAD, the crisis and, as a consequence, lower valuation of companies, will facilitate mergers and acquisitions and will trigger off restructuring activity – which may encourage investors<sup>9</sup> (companies on the Warsaw

<sup>7</sup> Compare: D. Walewska, “World Bank Will Support Poland with One Billion Dollars”, www.rp.pl of 20<sup>th</sup> June 2009.

<sup>8</sup> Compare: M. Kuk, W. Iwaniuk: “Poland Attracts Investment Banks”, Rzeczpospolita of 14<sup>th</sup> May 2009.

<sup>9</sup> Compare: A. Woźniak: “Investors Steer Clear of Poland”, Rzeczpospolita of 21<sup>st</sup> May 2009.

Stock Exchange announce their bankruptcy, for example, Krosno, Swarzędz, Pronox, PKM Duda).

**7. Long-term rating of reputable agencies.** At least three countries (namely Poland, Slovakia and the Czech Republic) fall out satisfactorily in assessing the credibility and economic stability. Foreign investors choose reliable countries and it is one of the major arguments for choosing the place of capital investment. Detailed data are presented in Table 2.

Table 2: Long-term rating in foreign currency.

| Country        | Fitch IBCA | Moody's | Standard&Poor's |
|----------------|------------|---------|-----------------|
| Poland         | A-         | A2      | A-              |
| Slovakia       | A+         | A1      | A+              |
| Czech Republic | A+         | A1      | A               |
| Hungary        | BBB        | A3      | BBB             |

Source: developed on the basis of "Economic Stability", Rzeczpospolita of 7 April 2009.

**8. Future abandonment of national currencies<sup>10</sup>.** Joining the Eurozone can further strengthen the economies of the countries in question, improve market reliability and stability, strengthen the attractiveness of the economies and reduce investment risk. Adopting the Euro will eliminate the risk of currency crises, exclude currency speculation and reduce the costs of economic activity (by means of decreasing transaction costs and by easier price comparisons).

It seems justifiable to claim that the abovementioned factors (as well as privatisation possibilities<sup>11</sup>) could result in attracting capital in the form of FDI to our part of Europe<sup>12</sup>. One has to be aware, however, that there are also risks in FDI inflows. The latter are as follows:

<sup>10</sup> Slovakia joined Eurozone on the 1<sup>st</sup> January 2009.

<sup>11</sup> In Poland, for example: PKO BP (the proposed transaction value amounts to 7.7 billion PLN), Polish Energy Group (4 billion PLN), TP SA (3.1 billion PLN), PGNiG (2.7 billion PLN), KGHM (1, 3 billion PLN), Katowice Coal Holding (1 billion PLN), the Stock Exchange (750 million PLN), Lublin Coal Bogdanka (600 million PLN), Kędzierzyn Nitrogen Works (300 million PLN), Polmos in Bielsko-Biała and Józefów (700 million PLN), Polmos in Toruń, Budostal Kraków, Elmet Rzeszów, ZPG Stomil, Polish Pharmaceutical Holding (the owner of three Polfas). What is also worth mentioning are the plans of the Minister of Treasury according to whom over 700 companies will have been privatised by the end of 2011 and the Ministry of Economy is going to increase the amount (from 290 million PLN to 1 billion PLN) for the companies constituting the service centres which serves as an important element of support for projects (EU grants), involving the participation of foreign investors (PAIIZ is negotiating 18 projects with 61 investors, on the development of service centres), source: www.paiz.gov.pl dated 20<sup>th</sup> June 2009.

<sup>12</sup> Here are examples of new investments in Poland: Sharp (Łysomice near Toruń, the largest factory in Europe) has so far invested 436 million PLN and this sum will soon amount to 500 million PLN, Rossmann (a network of drugstores) – plans to invest 200 million PLN, Avio – manufacture of engines for Boeing – Bielsko-Biała – 100 million PLN, Indesit – transfer of production from Wales to Poland (recently: Dell from Ireland), Spanish company – Neinver plans to build Futura, a shopping complex in Kraków, UniCredit Group (the owner of PeKaO) – aims to develop the centre of financial accounts – 18,5 million PLN, Nokia Siemens – software development centre.

1. External threats:

- difficult situation of transnational corporations and other companies that invest capital;
- difficulties in obtaining funds for investment (e.g. bank loans).

2. Internal threats:

- holding off privatization;
- lack of local land use planning;
- lack of road infrastructure (Poland);
- long period of time before being granted administrative decisions;
- claims of former property owners.

### Abstract

The article attempts to defend a bold hypothesis, namely that the world economic crisis can result in an increased capital inflow in the form of FDI to selected countries of the Central and Eastern Europe. The arguments presented in the article prove that Poland, Czech Republic, Slovakia and Hungary can soon constitute the places of increased FDI.

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MARCIN LASON

## European Neighbourhood Policy and the Eastern Partnership as a tool of the EU Neighbourhood Policy

### Introduction

This article aims to introduce the nature and importance of the European Neighbourhood Policy (ENP) and the Eastern Partnership Project (EP) for the relations between the countries of the European Union (EU) and their eastern and southern neighbours. Indeed, it is worth to consider the answer to the questions concerning the ways of shaping the Union's relations with its neighbours, the difficulties related with the latter and the changes implemented in the course of carrying out ENP project in order, inter alia, to strengthen such relations. The Eastern Partnership constitutes an example of the latter. Given the fact that Poland and Sweden initiated the EP, it can be stated that this is a topic of particular interest to Polish readers. At the same time attention should be paid to the reaction of the countries that the EP is targeted at, thus predicting the outcome of the initiative.

### 1. The conception, adoption and implementation of the European Neighbourhood Policy

When attempting a brief discussion of the European Neighbourhood Policy<sup>1</sup> concept, we should begin by noting the vision of the latter as presented in Au-

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<sup>1</sup> See a number of studies, for example: P. Borkowski, *Polityka sąsiedztwa Unii Europejskiej (The EU Neighbourhood Policy)*, Warszawa 2009; K. Pełczyńska-Nałęcz, *Poszerzona Unia Europejska wobec wschod-*

gust 2002 by the EU High Representative for Common Foreign and Security Policy Javier Solana and EU External Relations Commissioner Chris Patten<sup>2</sup>. This policy was presented as a project aiming to extend to the eastern neighbours of enlarged European Union. The countries which were mentioned were Belarus, Moldavia, Russia and Ukraine. However, in the course of work on developing a specific ENP formula, the policy also covered the Union's southern neighbours (which was particularly encouraged by France and Spain). The latter was clearly shown in the Commission's Communication of March 2003 "Wider Europe – Neighbourhood: A New Framework for Relations with our Eastern and Southern Neighbours"<sup>3</sup>. The reason of the latter was the need to reconcile different interests of the Member States in the context of the Union's relations with its neighbours. The European Council in June 2003 concluded that the Commission's Communication could be a basis for further work on the Union's neighbourhood policy. This paved the way for the analysis concerning the financing, which resulted in a Commission's Communication of July 2003 "Paving the way for a new neighbourhood instrument"<sup>4</sup>. This programme was to be implemented by the end of the 2000–2006 financial perspective, primarily on the basis of the TACIS programmes (for the eastern countries) and MEDA (for Mediterranean countries).

What should be indicated are the reasons which led the Union to a new approach to relations with its neighbours. Those relations have previously relied on prospective membership negotiations, various types of agreements, association agreements or agreements which aimed at stabilization or aid (as with the Western Balkans). The change occurred at least due to several reasons, which are as follows:

- Enlargement of the Union dictated a reflection and a definition of new relations with its neighbours;

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*niego sąsiedztwa: problemy i rozwiązania (Enlarged European Union in the Light of the European Neighbourhood: Problems and Solutions)*, Centre for Eastern Studies, Warszawa 2003; K. Pelczyńska-Nalecz, *EPS w praktyce – Unia Europejska wobec Rosji, Ukrainy, Białorusi i Moldawii rok po publikacji Dokumentu Strategicznego (The European Neighbourhood Policy in Practice – the European Union vis-à-vis Russia, Ukraine, Belarus and Moldavia a year after the Publication of Policy Strategy)*, Centre for Eastern Studies, Warszawa 2005; P. Buras, K. Pomorska, 'Poland and the European Neighbourhood Policy' [in:] *The New Neighbourhood Policy of the European Union, Perspectives from the European Commission, France, Germany, Poland, Ukraine and Moldova, Foreign Policy in Dialogue*, volume 7 – issue 19, pp. 34–43; A. K. Cianciara, *Czy wzmocniona Europejska Polityka Sąsiedztwa przywraca równowagę na osi Południe – Wschód? (Does Reinforced European Neighbourhood Policy Restore Balance between the South and East?)*, Analyses and Opinions, no. 78, the Institute of Public Affairs, Warszawa 2007; G. Gromadzki, *Więcej niż sąsiedztwo (More than Neighbourhood)*, Instytut Batorego, Warszawa 2008; Kai-Olaf Lang, *Eine Partnerschaft für den Osten. Der polnisch-schwedische Vorschlag zur Vertiefung der Kooperation mit den östlichen Nachbarn der EU*, SWP-Aktuell 66, www.swp-berlin.org; Barbara Lippert, *European Neighbourhood Policy: Many Reservations – Some Progress – Uncertain Prospects*, Fredrich Ebert Stiftung, www.fes.de.

<sup>2</sup> Joint letter on Wider Europe by Commissioner Chris Patten and High Representative Solana, www.europa.eu.

<sup>3</sup> Commission's Communication, *Wider Europe- Neighbourhood: A New Framework for Relations with our Eastern and Southern Neighbours*, www.europa.eu.

<sup>4</sup> Commission's Communication, *Paving the way for a New Neighbourhood Instrument*, www.europa.eu.

- Creating a wider area of stability and development, binding nature of law and democracy as the best guarantee of security (including economic one) of the Member States, by supporting the process of economic and political transition of the neighbouring countries;
- Lack of prospects for further enlargement of the Union (after 2004), which stood for the need of some kind of alternative or project for countries with aspirations for membership which would make this goal more attainable in the long-term perspective;
- The desire to strengthen the Union's foreign policy and to reinforce the role in the global balance of power. The aim of the latter was also to verify whether the EU was able to pursue a coherent foreign policy;
- Reducing the threat to internal security of the EU Member States by helping neighbouring countries. It was to serve a smaller influx of immigrants and prevent increasing level of criminality;
- Reorganizing the system of cooperation and assistance to neighbouring countries, particularly of the funds allocated to the latter.

Given the above reasons and the initial assumptions presented in the above-mentioned documents, the document of the European Neighbourhood Policy was prepared and submitted on 12 May 2004<sup>5</sup>. What was taken into account when preparing the latter were the changes in the countries of interest to the Union, such as Georgia. At the same time Russia itself rejected the opportunity to participate in the ENP, Turkey, on the other hand, was excluded while acknowledging its status of candidate country to the EU. It was the reason why the Western Balkans were not included in the ENP. Countries which were taken into account were in the geographical vicinity of the EU and they had established relations with the latter without a previously outlined membership perspective. ENP therefore covered the Mediterranean and Middle Eastern countries (Algeria, Egypt, Israel, Jordan, Lebanon, Morocco, Tunisia and, additionally, the Palestinian Authority), Moldova, Ukraine and South Caucasus countries (Armenia, Azerbaijan and Georgia)<sup>6</sup>.

What can be noted already at this point is one of the great weaknesses of the ENP, namely a lack of distinction between the countries due to their geographical location, economic, political and cultural situation or a desire (or lack thereof) for the EU membership. In this way, the EU's programme covered both the countries which apply for the EU membership as well as those which are not interested in the latter. It should be pointed out that the ENP and the enlargement policy were deemed two separate policies. Although the ENP does not close the doors to the enlargement, it practically becomes an alternative to the latter until the EU has matured for the next stage of this process.

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<sup>5</sup> Commission's Communication *European Neighbourhood Policy Strategy Paper COM(2004) 373 final*, [www.europa.eu](http://www.europa.eu).

<sup>6</sup> Commission's Communication, *European Neighbourhood Policy- Strategy Paper*, [www.europa.eu](http://www.europa.eu).

The so-called Barcelona Process and Association Agreements – already existing instruments of cooperation – have become the basis for cooperation with the southern neighbours in the framework of the ENP. The equivalent of such instruments of cooperation with the eastern neighbours were, by contrast, the existing Partnership and Cooperation Agreements. The main objective of the ENP was therefore the approximation of the neighbouring countries with the Union by means of a wide cooperation in various areas, like promotion of such values as human rights, democracy, etc., economic reforms, adapting legislation to the EU standards, improvement of state administration, the possibility of establishing preferential trade and border cooperation. The implementation of the ENP aimed at:

- expanding the area of stability (further than just the results of the EU enlargement in 2004);
- prohibiting the creation of new dividing lines on the borders between the enlarged EU and its neighbours;
- inviting the neighbouring countries to participate in various activities of the Union in the framework of political, economic and legal cooperation.

These objectives were to be achieved through the implementation of Action Plans – jointly agreed on by the interested parties – which would take into account the priorities of cooperation. The latter concern, inter alia, such areas as the system of justice and internal affairs, trade and political dialogue as well as reforms. Generally speaking, there are three instruments which are being made use of, namely the promotion and implementation of the European legislative model, new partnership agreements and financial support programme. This may lead to the creation of free trade area based on the Community legislation. At the same time, the Action Plans constitute the basis for planning and obtaining financial assistance for the implementation of set objectives and projects. It should be noted that each country is treated individually and the cooperation takes place on conditional basis, namely the Union makes its support conditional on implementing the reforms in partner countries. Thus, each country participates in negotiations on the assumed obligations which are then treated as the basis for the verification and subsequent decisions.

The abovementioned decisions had to be taken not only in the context of individual countries but, above, in the context of the whole project of the ENP. The difficulties connected with its generality and with the diversity of the participants resulted in the fact that the progress in attaining the objectives of the ENP was not achieved in the expected dimension. It was therefore the reason why the need to reinforce the ENP was emphasised in the Commission's Communications in December 2006 and 2007, and hence in the conclusions of the European Council December Summits. What was particularly strongly highlighted were the agreements on free trade, facilitating the mobility of citizens, promoting interpersonal

relations and establishing closer political cooperation<sup>7</sup>. However, the budgets for 2007–2013 adopted the rule that 2/3 of the funds for the neighbourhood policy would be allocated to the southern countries, and 1/3 to the East (from the funds to ENP amounting approximately to 12 billion Euro). It meant that the Eastern neighbours – as a part of the programme – would receive 3.64 euro per capita, whereas the Southern neighbours – 3.36 euro. Having in mind the greater number of countries in the South as well as a greater number of their residents, this resulted in a significant imbalance.

Commission's announcement on strengthening the ENP have opened new opportunities to devote greater attention to the Union's Eastern neighbours. Indeed, even the ENP project itself was not enthusiastically welcomed by the new EU members, because it was difficult for them to accept the fact of treating equally such countries as Ukraine and Libya. In addition, they were interested in the promptest and most profound integration of the EU's Eastern neighbours but also their own neighbours in the process of the European integration. If we add to the latter financial imbalance between eastern and southern direction as a part of the ENP, then the need for changes seemed obvious. The level of proposed funding is presented in the following tables. It should be kept in mind, at the same time, that from 1 January 2007, the ENP has had its own instrument of financing as well as its own budget for 2007–2013.

Table 1: Eastern dimension of the ENP

| <b>Country</b>          | <b>Funding 2003–2006<br/>(million EUR)<br/>TACIS programme</b> | <b>Integrated funding<br/>2007–2010<br/>(million EUR)</b> |
|-------------------------|--|---|
| Armenia                 | 58   | 98,4  |
| Azerbaijan              | 44   | 92  |
| Georgia                 | 59   | 120   |
| Moldova                 | 107,6  | 209,7   |
| Ukraine                 | 215,3  | 494   |
| Belarus                 | 15   | 20  |
| Regional<br>Cooperation | as a part of national<br>programmes                            | 223,5   |
| <b>Total</b>            | <b>498,9</b>   | <b>1257,6</b>   |

<sup>7</sup> See for example: Commission's Communication on Strengthening the ENP, [www.europa.eu](http://www.europa.eu).

Table 2: Southern dimension of the ENP

| Country                  | Funding 2003–2006<br>(million EUR)<br>MEDA programme | Integrated funding<br>2007–2010<br>(million EUR) |
|--------------------------|--|--|
| Algeria                  | 198,6  | 220  |
| Egypt                    | 415  | 558  |
| Israel                   | –  | 8  |
| Jordan                   | 160  | 265  |
| Lebanon                  | 100  | 187  |
| Libya                    | –  | 8  |
| Morocco                  | 569,5  | 654  |
| Palestinian<br>Authority | no funding from MEDA                                 | 632  |
| Syria                    | 106,5  | 130  |
| Tunisia                  | 316  | 300  |
| Regional<br>Cooperation  | as a part of national<br>programmes                  | 343,3  |
| Total                    | 1759,1   | 3305,3   |

Source: A. K. Cianciara, *Does Reinforced European Neighbourhood Policy Restore Balance between the South and East?*, Analyses and Opinions, no. 78, the Institute of Public Affairs, Warszawa 2007, p. 4.

Therefore, using the opportunity of the steps undertaken in order to reinforce the ENP and a similar French initiative on the Union for the Mediterranean<sup>8</sup>, one could think of a major project concerning the Eastern neighbours which was undertaken by Poland due to its eastern interests. This paved the way for the Eastern Partnership as an instrument which allowed to distinguish between ENP participants, on account of such criteria as aspirations to the EU membership, the state of political and economic reforms, balancing investments in both directions of the ENP and highlighting “Europe’s neighbours” and “European neighbours”, namely potential members of the European Union and those countries that will not become the latter. At the same time, when placing the EP in the ENP it should

<sup>8</sup> This issue exceeds modest frames of this study, therefore for more details see: A. Geiger: *Barcelona Process: Union for the Mediterranean Readjusting the Euro-Mediterranean Partnership*, EU Office of the Friedrich-Ebert-Stiftung in Brussels, April 2008, www.fes.de; D. Schwarzem, I. Warenfels, *The Union for the Mediterranean: A Missed Opportunity. The Challenges in the Region Would Require a Fundamental Revision of the Existing Framework*, SWP Comments 2008/C 05, April 2008, www.swp-berlin.org; M. Cholewa, *Francuska dyplomacja w okresie prezydentury w Radzie Unii Europejskiej (July – December 2008)* (*French Diplomacy During the Presidency of the European Union*), Bulletin of the Institute of Political Science and International Relations at the Jagiellonian University, no 23 (23), November 2008.

have been kept in mind that its basic assumptions were confirmed by the EU Council in June 2007<sup>9</sup>.

## 2. The conception and adoption of the Eastern Partnership

The project of the Eastern Partnership was announced by Radosław Sikorski – the Minister of Foreign Affairs, whilst delivering the Information of the Minister of Foreign Affairs on the Polish Foreign Policy in 2008. The latter was referred to as a part of the priorities of Polish foreign policy in 2008. The aim was to develop “a proper dynamics of the European Neighbourhood Policy, particularly in the Eastern dimension; it was noted that in the Eastern borders we were dealing with **the European neighbours**, while in the south, in the North Africa and the Middle East – with **Europe’s neighbours**”<sup>10</sup>. The EU Eastern policy was to become a Polish domain<sup>11</sup>. Due to the latter and to a strong commitment of other EU Member States from the Central and Eastern and Southern Europe as well as Sweden, there were attempts to create proper conditions for raising social and political standards in the countries covered by the initiative in question so as to adjust it to the EU level. The goal of the latter is to allow for speeding up their full membership in the Community, not only within the existing bilateral agreements with the Union, but also through multilateral activities in the framework of the Eastern Partnership. The work on the Eastern Partnership resulted in creating the document presented by R. Sikorski and Carl Bildt at the EU summit of foreign ministers on 26 May 2008 in the form of a “Polish-Swedish Proposal. Eastern Partnership”<sup>12</sup>. It has been successfully adopted which allowed for a formal acceptance of the idea<sup>13</sup>. After its positive adoption<sup>14</sup>, it has been accepted by the European Council on 19 June 2008. The European Commission was asked to prepare the rules of its functioning for spring 2009, taking into account and on the basis of the assumptions of the Polish-Swedish project<sup>15</sup>.

<sup>9</sup> *Council Conclusions on strengthening the European Neighbourhood Policy*, GAERC 18/19 June 2007, [www.europa.eu](http://www.europa.eu).

<sup>10</sup> Radosław Sikorski, *Information of the Ministry of Foreign Affairs on the Polish Foreign Policy in 2008*, the text is available on the website of the Ministry of Foreign Affairs, [www.msz.gov.pl](http://www.msz.gov.pl).

<sup>11</sup> Poland has already tried to point out its particular role and aspirations in the framework of the EU’s Eastern policy, it is worthwhile to note the following documents: *Eastern Policy of the European Union in View of its Enlargement through the Accession of the Countries of Central and Eastern Europe – Polish Point of View*, July 2001; *Polish Proposals on the Future Policy of the Enlarged EU towards its new Eastern Neighbours*, January 2003.

<sup>12</sup> See: the text on the website [www.msz.gov.pl](http://www.msz.gov.pl).

<sup>13</sup> On Polish efforts before the summit in June see: Information of the Ministry of Foreign Affairs on the Polish Initiative of the Eastern Partnership, 7<sup>th</sup> Senate Term, stenographic record (461) 35, meeting of the Foreign Affairs Committee, [www.senat.gov.pl](http://www.senat.gov.pl).

<sup>14</sup> See: D. Puszczkowska, ‘The EU Consents to Polish Eastern Partnership’, [www.gazeta.pl](http://www.gazeta.pl).

<sup>15</sup> Broadly on this issue see: ‘The Success of Polish Diplomacy: the EU Adopted the Project of the Eastern Partnership’, [www.wiadomosci.gazeta.pl](http://www.wiadomosci.gazeta.pl).

It turned out that the work of the Commission did not take so much time, because due to the commission of the Special Summit of Heads of State and Government of September 1, 2008, the work was accelerated (the event in Georgia had a particularly crucial impact on the latter). There were also further efforts to acquire and reinforce the support for the project<sup>16</sup>.

As a result, on 3 December 2008, the European Commission adopted a project of the Eastern Partnership. Assumptions of the latter were presented by the chairman of the Commission – Jose Manuel Barroso who stressed that it was the maximum extent of the cooperation that the Eastern partners could expect at that moment, because there was no agreement of all EU Member States on accession negotiations. For this reason, there were no records in this document that may suggest that the Eastern partners would be the future EU members. Barroso also expressed the opinion that the project was not directed against Russia, and it was to be a “soft power” applied by the Union to build stability and democracy in its Eastern neighbours<sup>17</sup>.

This project was approved at the summit of 19–20 March 2009, which specifically discussed the amount allocated for this project. This amount was accepted according to the Commission’s proposal (600 million Euro) but it still remained small compared to actual needs. In the three-year long perspective, taking into account the division of this amount into 6 countries, it meant around 33 million Euro for each country, which was considered negligible in relation to the needs and expectations of the partners. However, the grant of the requested amount allowed for the announcement of the great success of the Polish-Swedish initiative. The participants managed to overcome the resistance of southern countries, namely France, Italy, Portugal – which preferred the Mediterranean Union – and to make use of positive attitude of the Commission (clearly visible in the statements of Benita Ferrero-Waldner) and the strong support of the Czech Presidency, which stressed that even the act of granting 600 million Euro would not change financial proportion under the ENP. On account of the latter, it is not surprising that both Polish and Czech partners expressed great satisfaction after this proposal had been approved. The head of Czech diplomacy, Karel Schwarzenberg, said simply that: “Their dream came true. They had enough funds to launch the EP. It was a great victory for the Eastern neighbours and for the EU itself because its neighbours would then become its true partners”<sup>18</sup>. R. Sikorski stressed that the initiative was a great success also on account of the pace of its adoption, because “the Mediterranean Union has been develop-

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<sup>16</sup> See: *Joint Statement of the Foreign Ministers of the Visegrad Group Countries and of Bulgaria, Estonia, Lithuania, Latvia, Romania and Sweden*, Warsaw, 24 November 2008, [www.visegradgroup.eu](http://www.visegradgroup.eu).

<sup>17</sup> *The Eastern Partnership – an Ambitious New Chapter in the EU’s Relations with its Eastern Neighbours*, IP/08/1858, Brussels, 3 December 2008, [www.europa.eu](http://www.europa.eu).

<sup>18</sup> Quoted after: ‘The EU: Consent to the Eastern Partnership and Additional 600 million Euro’, [www.gazeta.pl](http://www.gazeta.pl).

ing for 10 years and we are now more or less at the same point: the EU has two major programmes of its relations with neighbours”<sup>19</sup>.

The adopted document stressed that: “The European Council is committed, under the principles set out in the statement (Appendix no. 2 to the document – ML) to greater bilateral engagement and to act in accordance with the new multilateral framework involving the EU, Armenia, Azerbaijan, Belarus, Georgia, the Republic of Moldova and Ukraine, with a view to accelerate the reforms, the process of approximation of law and further economic integration”<sup>20</sup>. Furthermore, it was stated that the cooperation as a part of the EP would take place with respect for the individual aspirations of the participating countries with regard to their future relations with the European Union”<sup>21</sup> which was extremely important for the Eastern attitude to this initiative and in the context of aspirations for full membership in the Union.

The inauguration of the EP took place at the summit of the EU Member States, partner countries and the countries concerned on 7 May 2009 in Prague<sup>22</sup>. The commentators had hoped that “the implementation of the Eastern Partnership may allow the EU to demonstrate its strength and credibility, to testify that economic shocks do not stop it from promoting its values and shaping the world according to them, at least in its immediate vicinity”<sup>23</sup>. Unfortunately, this meeting was not attended by many leaders of the EU Member States, which already showed that the expectations of showing the strength and unity of the Union can fail to be met<sup>24</sup>. It is worth noting the absence of the Prime Minister of Spain, Italy, Portugal, Cyprus and the President of France. It can be therefore seen that the Southern leaders symbolically demonstrated their distance to the project of the Partnership by belittling the inauguration. In addition, the representatives of the EU Member States decided that the recipients of the EP would be referred to in the final document as “the partners from the Eastern Europe” in order to avoid such wording that might suggest opening their way to the EU (for example, “European partners”)<sup>25</sup>. This was particularly forced through by Germany (including also the visa issues) and by the Dutch who did not like that Belarus was also covered by the Eastern Partnership.

The overall outline of the project was preserved. Thus, the Community shall aim to conclude an Association Agreement with each participant of the European

<sup>19</sup> Ibidem.

<sup>20</sup> The European Council in Brussels on 19 and 20 March 2009, Presidency Conclusion, p. 12, [www.consilium.europa.eu](http://www.consilium.europa.eu).

<sup>21</sup> Ibidem, p. 19.

<sup>22</sup> See a detailed report: D. Pszczółkowska, J. Pawlicki, ‘The Eastern Partnership Has Begun in Prague’, [www.gazeta.pl](http://www.gazeta.pl).

<sup>23</sup> S. Dębski, S. E. Cornell, ‘It Is the High Time for the Eastern Partnership’, [www.gazeta.pl](http://www.gazeta.pl).

<sup>24</sup> Broadly on this issue see: D. Pszczółkowska, ‘The Eastern Partnership More and More Modest’, [www.gazeta.pl](http://www.gazeta.pl).

<sup>25</sup> See full document: *Joint Declaration of the Prague Eastern Partnership Summit*, 7 May 2009, Prague, [www.eu2009.cz](http://www.eu2009.cz).

Partnership, the goal of which is to create a Free Trade Area and the liberalization of visa rules. The offer of cooperation was also directed to Armenia, Azerbaijan, Georgia, Moldova, Ukraine and Belarus (it was found that Lukashenko regime introduces democratic changes, which was a condition for the invitation). It was stipulated that the cooperation would be of a bilateral and multilateral character (also among partner countries) and it will be based on the implementation of particular projects in the following areas:

- 1) the dimension of politics and security, including issues such as democracy, community of values, the rule of law, self-government, foreign and security policy (consultation and coordination of standpoints), a special emphasis was put on the adaptation of legal system to Community standards;
- 2) borders and movement of people and, in particular, more flexible visa regime, improvement of border infrastructure (in the long-term visa-free movement);
- 3) economic and financial area, namely support for economic reforms, economic integration of EP countries and removing trade barriers between them and the EU (the perspective of a free trade area), development of tourism, transport and telecommunication infrastructure and energy cooperation; special emphasis should be placed on the adaptation of legal system to Community standards;
- 4) the area of environment, namely ecology, investments in environmental protection such as encouraging environmental awareness in society, the development of environmentally friendly technologies, etc.;
- 5) society, that is the development of social contacts, particularly in the cross-border relations, educational programmes, interpersonal contacts and non-governmental organizations.

Specific projects for the implementation of the EP are to be approved and presented by the European Commission already within next months. It is worth noting that R. Sikorski the same day declared in the Polish Sejm that the Polish government had already taken steps to prepare pilot projects concerning, inter alia, human rights, regional development and the prevention and liquidation of the consequences of disasters. The first results (achievements) of the EP would be visible in 2011 (during the Polish presidency)<sup>26</sup>. In fact, this is the first Polish project conducted in the Union and Polish prestige depends on the success of the latter. When commenting on the results of the summit, R. Sikorski said: "... I think we can say that this is the day of Polish success in the EU, the date when the EU has for the first time adopted and approved the whole Polish initiative"<sup>27</sup>. That same day, before the summit, when he presented the EP assumptions in the Parliament, he pointed at the benefits associated with the convergence of the Eastern partners to Europe, which would contribute to achieving their European ambitions and would help to stabilize the region<sup>28</sup>. However, the appropriated measures and the lack of real prospects

<sup>26</sup> *Sikorski on the European Partnership*, [www.interia.pl](http://www.interia.pl).

<sup>27</sup> Quoted after: *Sikorski on the EU Summit: This Is the Day of Polish Success*, [www.gazeta.pl](http://www.gazeta.pl).

<sup>28</sup> *Sikorski on the European Partnership*, [www.interia.pl](http://www.interia.pl).

for the EU membership may marginalize the importance of EP and thus result in a failure of the neighbourhood policy in the East. Partner countries may not carry out such prompt and extended reforms as the EU would expect, when only encouraged by this type of cooperation.

### 3. Eastern partners and neighbourhood policy

Eastern Partnership has a limited form because of the financial resources and the scepticism of the EU Southern Member States, as well as categorical insistence that the Partnership is not connected with the promise of the EU membership. This means that its real opportunities and the consequent importance may be much smaller than the originators envisioned. It seems that the latter was perceived by the recipients of the project<sup>29</sup>. Indeed, there were opinions that the EP is to be a substitute for the EU membership and would make its perspective more distant and uncertain. On the one hand, the EP, like the European Neighbourhood Policy, demanded costly reforms but did not offer an adequate reward. It could be particularly well observed on the example of Ukraine which stressed its desire for full integration with the EU and expressed its dissatisfaction with the fact of leaving it in the group of countries which are not potential candidates for the EU membership. Valeri Czalyj from the Research Centre for Political and Economic Affairs in Kiev, expressed it in the following words: "Placing Ukraine in the group of countries that are not potential candidates, could jeopardize our preparations towards the EU".<sup>30</sup> It was already in 2004 that the Ukraine Deputy Minister of Foreign Affairs, Oleksandr Czalyj, remarked that: "In exchange for the membership in the EU we were willing to abandon our every interest which was contrary with the EU interests. Today, the Union has not offered us a price worth doing so"<sup>31</sup>. It can be therefore seen that there were no significant changes in recent years in connection with the introduction of a new project. In addition, political unrest and the possibility of seizing power by the Party of Regions could mean that, contrary to expectations, the EP will not constitute the measure of approximating Ukraine to the EU but it will rather provide an argument for discouraging the efforts to introduce changes in the country, even more so when the funds for the latter are very modest. Vladimir Voronin, Moldova's president, in an interview with the newspaper "Kommersant", referred to the latter in a symbolic way and noted that the financial assistance provided in the EP (the amount of 15 million annually, as assessed by France during the summit in Febru-

<sup>29</sup> See a detailed report on the standpoints of the EU Member States and the Eastern Partners: B. Wojna, M. Gniazdowski, *The Eastern Partnership – the Initial Report*, PISM, April 2009, [www.pism.pl](http://www.pism.pl).

<sup>30</sup> Quoted after: 26 times "yes" for Polish Proposal, [www.rp.pl](http://www.rp.pl).

<sup>31</sup> Quoted after: P. Świeżak, *Europejska Polityka Sąsiedztwa. Bilans funkcjonowania na przykładzie Ukrainy (European Neighbourhood Policy. Its Assessment on the Ukrainian Example)*, National Security, 2007/3–4, p. 134.

ary), can be described as “a candy handed out on such occasions”<sup>32</sup>. He compared the project of Partnership as “the Commonwealth of Independent States 2” which is not needed by such countries as Moldova. Its progress towards integration is in fact much greater than that of other potential participants. Voronin therefore expressed his sceptical attitude to the project and he did not hide his doubts as to Moldavia’s participation in the latter.

It is worth noting that such strong statements were expressed by President Voronin after the visit of Russian Foreign Minister to Moldova in February 2009, which means that Russian diplomacy has actively pursued measures to limit the Partnership, and if the latter was to come into force, it should be in such form that did not hinder Russian aspirations in this region. The latter was the case due to the lack of a greater interest in the project in Armenia and Azerbaijan and the difficult political situation in Georgia, for which the aspirations for membership in NATO and cooperation with the U.S. (the effect of war with Russia) seem more important than the EU membership. A greater interest on the part of Azerbaijan was already visible at the summit in Prague. President Ilham Aliyev stressed that his country’s participation in the EP is a strategic choice of the path towards Europe. By contrast, Georgian President Mikheil Saakashvili, pointed at the role of the Georgian-Russian war in accelerating the establishment of the EP and regarded the latter as an opportunity to develop cooperation and equal treatment of participants from the East with the EU countries<sup>33</sup>. It is worth noting that for Georgia’s leader, the participation in the summit was significant on account of the internal situation in the country (the protests of the opposition).

In case of Belarus, the decision was primarily on the part of the European Union. On 7 March, the information was passed that inviting Belarus for the inauguration of the EP will be made conditional by Poland on the course of the congress of the Union of Poles in Belarus<sup>34</sup>. In fact, the congress has been positively assessed and Poland opted for maintaining the suspension of sanctions against Belarus. As noted by R. Sikorski on 16 March 2009: “We hold that the congress of the Union of Poles in Belarus is a positive phenomenon. Indeed we see no reason to exacerbate the exchange rate against Belarus. This will be the subject of our discussions and decisions”<sup>35</sup>. It was necessary to convince the Netherlands, which was successful enough, that Belarus was accepted to the EP and it was recorded as the Union’s motion at the summit of 20 March. A. Lukashenko, however, did not receive an invitation to the inaugural summit. It happened just on 17 April, when the invitation for Belarus was handed by the head of the Czech Ministry of Foreign Affairs

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<sup>32</sup> *It Reminds Us of the Commonwealth of the Independent States 2. Do We Really Need It?*, [www.interia.pl](http://www.interia.pl).

<sup>33</sup> Quoted after: D. Pszczółkowska, J. Pawlicki, *The Eastern Partnership Has Begun in Prague*, [www.gazeta.pl](http://www.gazeta.pl).

<sup>34</sup> *Polish Government Gives Belarus an Ultimatum*, [www.interia.pl](http://www.interia.pl).

<sup>35</sup> *Sikorski: To Maintain the Suspension of Sanctions against Belarus*, [www.interia.pl](http://www.interia.pl).

– Karel Schwarzenberg<sup>36</sup>. It was not clear whether he would accept the invitation because it was suggested that another representative could come instead of him. Hence the invitation was not affixed with a specific name. Finally, Deputy Prime Minister Vladimir Siemiaszko arrived at the summit in Prague. However, it is worth remembering that the democratic standards of Lukashenko regime leave much to be desired and it is not certain whether the modest resources which can be acquired as a part of the EP will be sufficient for the changes, even more so because Belarus needs billionth of aid, which could be provided by Russia under certain conditions.

Given the above reactions, it is difficult to predict a spectacular success for the EP, especially that Russia was not favourable to the Partnership. In order to make Russian argumentation against the latter more difficult, what was highlighted was the possibility of its participation in specific projects, without formal membership in the EP. It was particularly evident in the Polish and Czech statements at the February summit in Brussels, which constituted a response to the French initiative for the widest possible inclusion of Russia in the Partnership. The latter aimed, on the one hand, to leave the same assumptions and goals of the EP and, on the other hand, to avoid the impression which was made in Moscow when crystallising the project by the Commission, namely that “the European Union pushes Russia to Asia”<sup>37</sup> and ceases to be a priority for the EU’s Eastern policy. However, it seems that, at least temporarily, due to Polish activities the rhetoric of Russia was softened. On 6 May 2009 in Moscow, after R. Sikorski had conducted talks with the head of the Russian Ministry of Foreign Affairs Sergei Lavrov in Moscow, the latter said that he acknowledges that the EP did not entail to make a choice whether someone heads in the direction of Russia or the EU. He also expressed his belief that Poland would make the effort that the EP developed “in complete harmony and agreement with Russia, in order to prevent the confrontation of processes which develop under the auspices of the EU in Europe”<sup>38</sup>. This may mean that the Russians want to make use of specific projects, for example in the Kaliningrad region but that, at the same time, they do not recognize the EP as dangerous for their interests in its planned, modest form. It is hard to believe, however, that they would not take action with effects similar to those resulting from Lavrov’s visit to Moldova.

## Conclusions

1. ENP covered too wide group of countries which are different both in terms of internal relations as well as aspirations and foreign policy. It did not distinguish the countries which aspired to the EU and those which do not have such aspirations and

<sup>36</sup> *Lukashenko Invited for the Summit Initiating the European Partnership*, [www.gazeta.pl](http://www.gazeta.pl).

<sup>37</sup> *Niezawisimaja Gazeta* of 2 December 2008, quoted after: *The European Union Pushes Russia to Asia*, [www.interia.pl](http://www.interia.pl).

<sup>38</sup> Quoted after: *Polish-Russian Relations: Getting Warm*, [www.interia.pl](http://www.interia.pl).

cannot even think about the latter, for example due to geographical reasons. The ENP was based on bilateral agreements negotiated individually with each country and thus it put into question the usefulness of the whole structure, because it was difficult to find the value of the ENP.

2. The incentives provided under the framework of the ENP were not sufficient to induce the partner countries to carry out the necessary reforms expected by the Union. A lack of membership prospects caused that the high cost of changes were discouraging, especially in a situation of strong opposition, such as in Ukraine. The latter resulted in the necessity to strengthen the ENP, to create a new perspective or new forms of incentives (in practice, reaching deeper into the EU budget).

3. The assumptions and the functioning of the ENP turned out to be inadequate in relation to undertaken changes in countries such as Ukraine which, after the Orange Revolution, assumed a strong pro-East attitude expressed, inter alia, through the aspirations (and the desire to prepare and assess the possibility of an application for the EU membership) to join the Union. It turned out that the EU was looking at these processes from the perspective of the rigid assumptions of the ENP and was unable to provide sufficient financial, political or even symbolic support.

4. What will be decisive for the success of the EP will be practical implementation of its objectives, depending on further position of the EU Member States, Eastern partners and the European Commission. This translates, among other things, into the project of the budget. Limited financial resources require the search for additional sources of money to achieve the objectives of the Partnership. Under the present conditions, the provided funds appear to be too small to achieve success in a dimension other than in terms of propaganda.

5. The Partnership is not an alternative to the EU enlargement, but it is a response to the reluctance of the Member States to conduct further accessions. It is therefore a measure of approximating the Eastern partners to the Union, and for those who want to integrate, it facilitates the preparation, on account of the fact that there exists political will.

6. It should be noted that the Eastern Partnership is an initiative of strategic importance for the EU. It aims at ensuring the stability on its eastern border and the latter is crucial – as was demonstrated by August (2008) events in Georgia and their consequences. The same applies to the South region of the neighbourhood policy, which suffered during the December crisis in Gaza (2008).

ZOLTÁN BALOGH

## Euroregions as a form of transnational cooperation: Case studies from Central and Eastern European countries

Key words: euroregion, cross-border cooperation, transnational cooperation

### **Defining euroregions**

In Western Europe the institutionalized cross-border cooperation is called “euroregion”. The term was used for the first time in the German-Dutch border (EUREGIO, 1965). The “euroregion” term is used more frequently in Polish and German areas. The origin is not clear, but especially after the monetary reform of the European Union it is quite embarrassing (Süli-Zakar 2003a). Although the name of the Carpathian Euroregion, introduced in the article later, is not correct but official one.

Today the number of euroregions is higher than 60 besides the other type of cross-border cooperation organizations, which covers almost the whole border area of Europe (Czimre 2003).

The euroregions are in pragmatic sense the traditional and most effective type of cross-border cooperation organizations which cover the area of two or more countries and cooperate by contract in order to develop their cross-border activities (Baranyi 2004). The euroregion term is a geographically determined area where mutual interregional, cross-border, economic, social and cultural co-

operations are established between one or two of the countries' local and regional governments (Éger 2000).

Perkmann (1998) created groups of cooperation forms by the number of participating regions and their geographic position:

Chart: The forms of interregional and cross-border cooperation

| <b>Geographic feature</b> | <b>Small</b>   | <b>Large</b>                                   |
|---------------------------|--|--|
| Connecting                | Cross-border regions (eg. EUREGIO)                   | Working groups (eg. Alpok-Adria Working Group) |
| Not-connecting            | Interregional cooperations (eg. Europe Four Engines) | High level organizations (eg. AEBR)            |

Source: based on Perkmann (1998).

Based on the above, Baranyi (2004) determines two types of euroregion models: large regional and small regional models. The first is the large-scale cooperation of NUTS 2 and 3 regions. Opposite to that, the small region model (agglomeration model) is based more on microregions and cross-town relations. The territorial relation is handled as the key of success. The first trials in the post-socialist Central and Eastern European countries especially supported the large region model (Carpathian Euroregion, Duna-Kőrös-Maros-Tisza Regional Cooperation). But the role of political and symbolic motives were more important, therefore their sustainability was more problematic than on the Western borders (eg. Alps-Adriatic Working Group established in 1978 – Süli-Zakar 2003c). Besides it the peripherality of the participating regions of CEECs should be also crucial (Süli-Zakar 2003a).

In contrast to this opinion, Illés (2002) defines this cooperation not as cross-border but transnational (similar to the debate in the European Parliament on the European Grouping of Territorial Cooperation (EGTC), when the cross-border term was replaced by territorial). In the large scale cooperation organizations, the European goals are more important than in small cooperation euroregions where the specific problems of border areas are more in the focus. He maintains that the management of large euroregions is more problematic but their mission is different and they could become more visible at the European level for decision makers. Although he stresses that through the case of Danube Region there exists especially significant difference between German and Moldavian regions (40 times) and out of the 149 bridges on the Danube, 119 is between Austria and Germany. (Illés 2002, p.303–307.)

The euroregions established later on the Eastern borders were mainly small euroregions focusing on territorial relations. These are the following:

- Kosice-Miskolc Euroregion;
- Interregio (Hungary – Szabolcs-Szatmár-Bereg; Romania – Satu Mare; Ukraine – Zakarpatska);
- Hajdú-Bihar – Bihar Euroregion (between NUTS 3 regions);
- Bihar-Bihar Euroregion (between border municipalities).

As one of the indicators of success, these euroregions are not planning to establish EGTC opposite to the Hungarian-Slovakian Ister-Granum Euroregion, the territorial organization of which could be the governance level of cross-border issues.

The following part of this study presents two of the euroregions of the Eastern border regions: the Carpathian Euroregion and the Duna-Körös-Tisza-Maros Euroregion, as a result of Central and Eastern European territorial cooperation.

### **Carpathian Euroregion**

The Carpathian Euroregion, established on the 14th February 1993 was set up on bilateral cross-border relations. The political and economic revolution at the beginning of 90s made it available to implement the institutional cross-border experience.

The founders were from Hungary Borsod-Abaúj-Zemplén, Szabolcs-Szatmár-Bereg, Heves, Hajdú-Bihar counties, Miskolc, Nyíregyháza, Eger and Debrecen municipalities, from Poland Krosno and Przemysl voivodeships, from Slovakia, the members of Carpathian Union, from Ukraine Zakarpatska oblaszty. Later, as an important partner country, Romania joined through Satu Mare and Maramures counties, which made the Carpathian Euroregion Europe's first exclusively CEE euroregion (Süli-Zakar – Turnock 1999). This euroregion has also the longest internal border and largest territory covered (16 million inhabitants, 166.000 km<sup>2</sup> – Baranyi 2004).

In the development of the Carpathian Euroregion the effective international relation was a crucial factor (Süli-Zakar 2003a). Experts were delegated to the Association of European Border Regions (AEBR), the work was financed at the beginning by the New York – based IEWS institute, which has shared experience with the Euregio Maas-Rij (EMR) whilst today the Hungarian Delegate in the EGTC expert group is delegated by the Carpathian Euroregion.

Today however, the organization has a low activity after the successful touristic, cultural and education cooperation initiatives. In the lack of its own budget, the euroregion can not fulfil its competences, the organization cannot develop in line with its strategy. The Western examples of Alps-Adria Working Group or the EMR (Novotny 1998) show that they have an independent institutional background which secures the continuous operation based on the membership fee paid by the member regions (Germany – Aachen, Belgium – Liege, Limburg, Netherlands – South-Limburg - Süli-Zakar 2003a).

The Carpathian Euroregion was continuously hindered by the conflicts on national level of the members (see the lack of Romanian counties by establishment, Slovakia under Meciar in 90s). Besides many borders between the territories of the euroregion, the area was separated. Schengen abolished some of the borders but some of the internal Schengen borders hindered further development of the euroregion.

Despite all of this, the Carpathian Euroregion was a pioneer which is the symbol of the multiculturalism and union of the Central and Eastern European Countries. Through the euroregion much of Western experience was transferred and implemented in this peripheral region of Europe. It later became the basis of new euroregions focusing on smaller areas with a more and more closer cooperation (see Ung-Tisza-Túr EGTC initiative, town-twinning relations, cross-border duty-free zones and industrial parks – eg. Záhony).

### **Duna-Kőrös-Maros-Tisza Euroregion**

The Duna-Kőrös-Maros-Tisza Regional Cooperation (DKMT) was established in Szeged on 21st November 1997. At the beginning, the Hungarian-Romanian-Yugoslavian large-scale border zone was under pressure by the unstable Yugoslavian situation. But the founders tried to overlap this difficulty and their mission focused on local cooperation initiatives instead of political goals (Éger 2000). Therefore similar political conflicts such as that of Carpathian Euroregion were avoided and in spite of its large scale (77243 km<sup>2</sup>, 6 million inhabitants) it could be presented as an integrated area. However, the conflicts during the decision making process were put on surface (Baranyi 2004).

Velkey (2008) stresses the importance of another problem. Parallel to the development of the euroregions, crucial regional reforms were implemented in the participating Central and Eastern European countries. It has resulted in the fact that some of the competences were transformed from one territorial level to another and, therefore, the previously strong role of some members are abolished in cooperation (e.g. from NUTS 3 to NUTS 2 level). There were examples in the operation of the DKMT, especially on the Hungarian side, therefore today only 2 of the 4 founding counties are participating in the cooperation (Csongrád and Bács-Kiskun county).

Jász-Nagykun-Szolnok county's exit was a result of the territorial restructuring. The county became the part of Észak-Alföld Region and therefore the North-East border relations became more strategic than of the South-West border relations. Contrary to the latter, the exit of Békés county – as it became the part of Dél-Alföld Region bordering Romania and Yugoslavia – was only a short term political decision in order to get closer to Hajdú-Bihar county of Észak-Alföld Region and its Romanian partner, Bihor county. The short term political decisions

are not in favour of euroregional cooperation. The political elements could be a dangerous factor just like in the case of Carpathian Euroregion.

The reasons of the low activity of DKTM Euroregion could be characteristic for all Central and Eastern European euroregions (Velkey 2008):

- Lack of involvement of civil organizations in cooperation;
- Low level of connections with residents and SMEs than it would be necessary;
- Too huge organization, too great territory (e.g. Carpathian Euroregion);
- Different competences, functions, reforms of cooperating organizations, which are dependent on central governments;
- Competition of municipalities for development resources and territorial roles in the unstructured CEEC municipality hierarchy (in the DKTM 4 airports are developed simultaneously).

The DKTM see the solution just as other organizations in Western Europe for the success of euroregions: integrated development of suburban areas including cross-border areas; labour attractivity and SME networks; investments. These are those economic factors which led to the development of cross-border areas even if they are bilateral contacts, euregions or EGTC. The most crucial element is to improve accessibility in these areas which can abolish the peripherality of these border municipalities, counties, regions.

### **Conclusion**

In order to strengthen the common voice of euroregions in the CEEs, the Consultative Council of the Euroregions of the Visegrad Countries was established on 6<sup>th</sup> May 2004 (Kaiser 2006). According to the foundation document, the main task of the participating 16 Euroregions is to develop a network-based but institutionalized forum, bringing about a peak association on behalf of V4 regions and municipalities. The Vág-Danube-Ipoly Euroregion has initiated this Council and took the secretariat. Among the 16 members only 5 are members of the AEBR. To fill this gap, this Council could act as a regional pressure group, making the Euroregion phenomena into a generally accepted institutional form.

### **Abstract**

The new regionalism concept of Jörgen Gren stresses the importance of interregional cooperation. As a way to achieve it, it is especially necessary to improve the accessibility of peripheral border regions to services, labour market, properties and investments. Bilateral cross-border relations, euroregions, European Grouping of Territorial Cooperation (EGTC) are all forms of transnational cooperations to provide organizational basis for development. This paper aims to provide a theoretical background for euroregions, summarize their role in Central and Eastern European Countries and show some case studies on what are the main challenges ahead of the Eastern peripheral euroregions.

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KATALIN DANCSI

## East Central Europe's preparation for Schengen membership: a turn toward a Schengen curtain

Keywords: EU eastern enlargement, new EU member states, Schengen acquis, visa policy, iron curtain

### **Introduction**

The dismantling of the Iron Curtain and the relaxation of travel restrictions were the most significant achievements for the former state-socialist countries, marking the beginning of the collapse of state socialism in eastern Europe. The euphoria of what it meant to freely leave these countries without special permission or authorization was first experienced by some thousands of GDR citizens who were escaping via Hungary in the summer of 1989, once the Soviet political leadership eventually gave temporary permission for the first time to open up the Iron Curtain and let them leave through Austria for West Germany. The freedom to travel and the gradual opening of borders on both the eastern and the western borders of the former soviet bloc countries in East Central Europe (ECE) were seen as major gains won with the collapse of state socialism.

Illegal migrants and asylum seekers were practically non-existent in the ECE region before the end of the Cold War. In addition, eastern European countries tended to be (and still are) places of emigration or transit, rather than destina-

tion states. Therefore, their un-exposure to immigration problems before and the high value they attributed to the re-gaining of their freedom of travel resulted in very loosely specified and generous national laws on border control, cross-border flows or migration in the first half of the 1990s (Byrne, Noll and Vedsted-Jansen 2002).<sup>1</sup> Tightening border control and regulating immigration related issues were not a priority in those days in ECE. They did not constitute the subject of high politics, nor did the public show great concern in this regard, given the magnitude of economic, political and social challenges that ECE states had to address in the subsequent politico-economic transformation process in the post-1989 period (Wallace and Stola 2001).

From the mid-1990s, as Sandra Lavenex pointed out, ECE candidate countries started to build up their border control capacities and to pass laws with a view to enforcing border inspections as a reaction to their EU neighbors' bilateral efforts and encouragement to do so (Lavenex 2001, 1999). Individual old EU member states exerted severe political pressure and offered financial compensation to future new members to sign bilateral readmission agreements and to encourage them to join the Geneva Refugee Convention and the European Convention of Human Rights. These agreements were the necessary legal instruments for old EU members to ensure the redistribution of their responsibilities in handling illegal immigrants in an increasingly restrictive fashion. When an ECE country was in compliance with the norms on international human rights, which was usually assumed if the two abovementioned treaties were ratified, the application of the principles of 'safe country of origin/transit' and 'manifestly unfounded' claim could be quickly deployed. Thus, bogus asylum seekers' claims could be denied fast tracking, without consideration by old EU members. Then, on the basis of the readmission agreements between old EU members and ECE countries, the immigrant was transported back to the closest safe country he or she had transited. These countries were usually the ECE states, if credible evidence was available proving the unauthorized migrant had been present in the receiving ECE state. Since these mechanisms proved effective in sharing the burden of controlling unwanted immigration, it was not a coincidence that the 'safe third country' and the 'manifestly unfounded' principles made their ways to national legislation of old EU member states in the early 1990s (Ucarer 2001, Geddes 2001).

But the conclusion of readmission agreements had a self-proliferating nature that risked reproducing the restrictive border control trends in ECE as well

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<sup>1</sup> Those countries with large ethnic diasporas outside their territories, such as Poland or Hungary, have had special interests in pursuing liberal citizenship and immigration policies. For example the first large influx of Romanians into Hungary occurred between 1988–1991 (ca. 50.000 asylum seekers). Since 70 to 90 percent of them were ethnic Hungarians, they were granted residence and work permits without any bureaucratic formalities (Nagy 2002: 147–149). The situation was similar in Poland regarding the treatment of ethnic Poles, who were deported to Kazakhstan by Stalin in the late 1940s. Poland experienced the first large increase in the number of Kazakh citizens (ethnic Poles) applying for permanent residence permit in 1995. Thus, the country passed a law, which gave privileged treatment (simplified naturalization and financial assistance) to them in 1996 in order to assist their re-integration into their motherland (Igllicka 1998).

from the mid-1990s. In order to avoid becoming a 'closed sack' – a country collecting persons returned from the EU – ECE states did not only start to focus on more effective border controls on their own eastern borders, but they also started to conclude similar readmission agreements with their eastern neighbors and encouraged them to adhere to international human rights norms like the Geneva Convention (Byrne, Noll and Vedsted-Jansen 2002: 298–299).

Old EU member states' activity in shaping candidate countries border control policies, in a direction that promotes restrictive tendencies, could be viewed as a negative externality (Lavenex 1999). The unidirectional co-option on ECE states in the execution of the EU's stringent border control policy started years before accession negotiations began as a result of this externality effect. The EU's influence grew even further with the formal launching of accession talks since it was an accession condition for ECE to import all the restrictive Schengen *acquis*.

The transformation of ECE's liberal border control policy into a restrictive regime, which is in compliance with the Schengen criteria within the short period of less than two decades, has taken its economic, social and political toll. It raised political fears for the 'left out' fellow ethnic diasporas living in non-applicant neighbors. Thus the aim of this study is to elaborate on the costs of increasing border enforcement in ECE. These costs were considerable even though new members all consider that the gains of EU accession have eventually outweighed the expense of Schengen membership.

In the early 2000s, many scholars argued that the transposition of the post-Amsterdam Schengen arrangement risked sealing the enlarged EU's eastern borders, risked curtailing eastern neighbors' recently regained freedom of travel and risked creating a fortress Europe or a new eastern 'iron curtain' (Lavenex 1999, Lavenex and Ucarer 2002, Wallace and Stola 2001, Jileva 2002, Grabbe 2005, Iglicka and Sword 1999). The single most important problem, this scholarship warns, could arise when new members impose visa restrictions on most of their non-applicant eastern neighbors to fulfill EU membership conditions on adopting the EU's visa lists.

This study investigates ECE's visa arrangement in the post-1989 period. The aim is to give a sense of the magnitude and the restrictive direction of the visa policy reconstruction new members undertook between 1989 and 2007 due to eastern EU enlargement.

The study argues that new EU member states were particularly unkeen on aligning their visa regime with that of the EU. A few of the strategies to ease the burden of EU visa list adoption until 2007 (when they fully joined the Schengen-zone) are discussed.

### **The transposition of the EU's visa regime on ECE candidate states**

The importation of the EU's visa regime by the ECE candidates was a significant step which contributed to the disintegration of what emerged in the 1990s – to borrow the term of Claire Wallace and Darius Stola – as a 'new migration space' in ECE (Wallace and Stola 2001). Two issues have to be addressed in this section with regards to visa restrictions: the impact of the introduction of visa obligation on fellow ethnicities in the visa restricted non-applicant neighboring countries and that on the tourist industry in ECE.

### **The impact of EU visa list transfer on ethnic diasporas**

Ethnic groups living outside the borders of their homelands are a prevalent phenomenon in Eastern Europe where borders in the 20<sup>th</sup> century moved three to five times. Just in the 1990s alone 12,000 km of new borders were created in ECE. Many ECE countries looked at the adoption of the EU's harmonized negative visa list, which subjected Albania, Belorussia, FYROM (Macedonia), Moldova, Montenegro, Russia, Serbia, Turkey and Ukraine to visa requirements, as a necessary cost of EU membership. Particularly, this is because this visa regime alignment, which had to be fulfilled before EU accession, did not come together with the lifting of new members' internal border control from the first day of enlargement, nor did it enable new members to issue the Schengen visa. So, between 2004–2007, new members started to issue their own pre-Schengen 'national' visas to their non-applicant neighbors, which was valid in the issuing countries' territories only. Since new members became full participants of the Schengen cooperation, from December 21, 2007, they have become eligible to issue Schengen visas valid in the entire territory of the EU's frontier-free zone.

Not surprisingly, some of the ECE candidate states tried to delay this harmonization or demanded the flexible adoption of the EU common visa regime. While the Czech and the Slovak Republics imposed visa requirements on Russian, Ukrainian and Belarusian citizens in 2000 and 2001, Poland, Slovenia and Hungary resisted fully implementing the EU's negative visa list until almost a year after the conclusion of accession talks. Poland placed visa requirements on Ukrainian, Belarusian and Russian citizens in July 2003. Slovenia introduced visa requirements on Serbians and Montenegrins at the same time.<sup>2</sup> Meanwhile, Hungary did the same in November 2003 with regards to Ukraine, Serbia and Montenegro. These three new EU member countries gave their visas free of charge to their neighbors and personal visa interviews were not required. In exchange, their own nationals were not subjected to reciprocal visa requirements by the non-candidate neighbors. Bulgaria and Romania also imposed visa regulations on

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<sup>2</sup> Ministry of Foreign Affairs of the Republic of Serbia [http://www.mfa.gov.yu/Visas/sl\\_visas.htm](http://www.mfa.gov.yu/Visas/sl_visas.htm) (Accessed in March 2008).

all their non-applicant neighbors, years before they joined the EU, because it was a condition for them to be removed from the EU's black visa list (Jileva 2002: 688). (Romania was removed from the EU's negative visa list in 2002 January, Bulgaria in 2001 April.<sup>3</sup>) However, Romania rejected imposing visa obligations on Moldavian citizens until January 1, 2007, when the country finally joined the EU. Another case in point is Croatia. Before Croatia applied for EU membership in 2003, it had already introduced visa restrictions on citizens of non-candidate ECE countries including its neighbors Serbia and Montenegro, just to have it suspended since 2003 by a yearly special government decree<sup>4</sup>.

The example of Hungary's attitude toward imposing visa restrictions on some of its neighbors is also indicative. Fears of a new eastern visa 'iron curtain' were prevalent, sometimes even hysterical in Hungary between 2000–2005. There are ethnic Hungarians living in many of Hungary's neighbors. So, it is a cornerstone of the foreign policy of each Hungarian government to maintain a good relationship with the ethnic Hungarians, support them and grant them easy access to its territory in order to help them in preserving their culture, language, identity and relations with family members and relatives living in Hungary. There are approximately 1.4 million Hungarians in Romania, half a million in Slovakia, 290,000 in Serbia, 150,000 thousand in Ukraine and only a few thousand in Croatia, Slovenia and Austria. The size of its ethnic minority population living outside of its borders ranks Hungary in second place. (Only Romania has slightly more ethnic Romanians living in the countries around Romania, primarily in Moldova.) In the first part of the 2000s, the ghost of a Schengen 'iron curtain' was played out in three subsequent acts in Hungary. In the end, it turned out that many of the predicted fears (for example the dramatic reduction in cross-border flows) were simply overblown.

In 2000 it was not clear that the Schengen *acquis* was to be imported in two steps. Therefore, it was not foreseen that, despite the accession obligation to adopt the EU's negative visa list, (pre-Schengen) visa issuance in new member states would remain to be based on national priorities until December 2007. Neither was it forecast in Hungary that Romania would be removed from the EU's visa list as early as 2002. Nor was it certain then that Slovakia was going to join

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<sup>3</sup> The Romanian border authorities started to filter who was allowed to leave Romania after the country's removal from the EU's negative visa list, which was part of the visa list removal deal (interview with a border guard, January 2007 at the Romanian-Hungarian border). They started to ask for documents (invitation letter, bank account statement, health insurance, car insurance and car environmental certificate) to be presented upon leaving their country that was needed earlier to receive a Schengen visa. But these measures did not prove effective in preventing the (temporary) phenomenon described as 'Romanian mafia beggars overwhelm on the streets of Italy, France and Spain' in the few years following the introduction of visa-free travel. To calm down their public's hostile reaction, EU states demanded additional constraints on the flow of Romanians to the EU. This was when the EUR 500 financial resources was introduced that had to be presented to the Romanian border guards on leaving Romania, if the traveler declared the EU to be the destination state.

<sup>4</sup> Croatian Ministry of Foreign Affairs <http://www.mfa.hr/MVP.asp?pcpid=1615&dmid=166#pocdrz> (Retrieved in February 2008).

the EU at the same time as Hungary. (Slovakia started accession negotiations with the EU in 2000.) Therefore, around the turn of the millennium Hungary (wrongly) predicted that almost all of its border sections (except for the ones with Austria and Slovenia) were going to be converted into fearful external Schengen walls.

As the date of accession approached, Hungary feared that it would have to soon impose Schengen visa requirements on Romanian, Serbian and Ukrainian citizens and subject Slovaks to Schengen inspection. These steps were not only considered to be undesirable costs of EU accession, but restricting the flow of Romanian citizens to Hungary through visa imposition was regarded as politically unacceptable. So the Hungarian government came up with a compensatory strategy and passed a bill in 2001 that came to be known as the status law. The law granted special access to the territory of Hungary and citizenship-type rights (e.g. the freedom to work legally for up to three months within a 12-month period, entitlement for certain social benefits and healthcare coverage, travel discounts on state-owned railways, but it stopped short of automatic naturalization) to all ethnic Hungarians living in the neighboring states, except for Austria. The government issued special “Hungarian ID and travel cards” to citizens from the neighboring states if they could confirm their Hungarian descent.

Once visa requirements were introduced toward Romania, Ukraine and Serbia, it was planned by the Hungarian government in 2001 that the holder of these cards could be exempted or could undergo less inspection at the borders upon entry to Hungary. However, all the neighboring states and the EU immediately started to criticize this problematic act. They all rejected it, for example, on the basis that discrimination on ethnic grounds was illegal in Europe. So the act was soon suspended and later revoked. In 2002 it was finally pulled off the agenda, when Romania’s accession process started to speed up and it was also removed from the EU’s visa list. What also helped to sump the act was that it became certain that Slovakia would join the EU at the same time as Hungary. In short, the Hungarian government’s protective strategy toward the two largest Hungarian diasporas (in Romania and Slovakia) aimed at outweighing the Schengen accession’s negative effect on their access to Hungary lost ground by 2002.

But the case could not be closed at that point. The second round of visa ‘iron curtain’ panic came in December 2004. The revoked status law, particularly its rhetoric on exaggerating the threat induced by a fortress-EU image, created inflated expectations among the domestic public and in the Hungarian ethnic groups in Ukraine and Serbia. Citing the ghost of a Schengen ‘iron curtain’, which would set tremendous hurdles on maintaining cultural and family connections with the homeland for fellow ethnicities left outside of the Schengen fortress, a nationwide movement unraveled in 2003–04. It sought to organize a national referendum on whether to give dual citizenship to fellow ethnic Hungarians, who were

citizens of the neighboring countries. Finally the referendum was held in December 2004. It failed and the proposal on dual citizenship was voted down. What gave some credibility to the Schengen 'iron curtain' rhetoric in 2003–04 were the facts, that those were the years when Hungary introduced visa restrictions on two of its neighbors (albeit, it was granted free of charge and with virtually no rejection rate) and when the local border traffic agreements were terminated for EU request. Besides, Serbia was already pursuing a liberal citizenship policy for its own domestic reasons. So Serbia expressed no objection to the idea that a group of its citizens would become citizens of Hungary as well.

Finally, the last round winding up the Schengen fears in Hungary occurred in 2005. As a result of the failed referendum in the following year, the government announced it was going to introduce a new type of visa, called the national visa for ethnic Hungarians living in Serbia and Ukraine. The government felt the political obligation to remedy the failure of the referendum. So it launched a new visa type from January 1, 2006. It is a Schengen compatible visa, a type D long-term visa that member states are allowed to issue based on national priorities. It is granted for the purposes of visiting relatives or family and conserving cultural and linguistic links. It has a limited territorial validity, as all type D national visas do. It is valid in Hungary only, but it permits multiple entries, long stays, more than the usual 90 days within a six-month period and it is valid for five years. Its advantage is that it is granted free of charge and it can be converted into a Hungarian residency permit, which enables its holder to travel within the Schengen zone (after Hungary's full Schengen accession), because full Schengen members recognize each others' visas, work and residency permits as entry permit.

However, the conditions necessary to receive it are set up in a way that are hard to meet. It is also in compliance with the EU's Common Consular Instructions in the sense that it is issued based on careful considerations and in limited numbers as it is not supposed to undermine the EU's visa system and provide a back door to enter the border-free zone. One generally has to fulfill the conditions of long-term residency, which presents a series of obstacles for the majority of the applicants. In addition, the holder of the visa is not authorized to work in Hungary. It has been nicknamed a 'mother-in-law visa' because only those people who have close relatives working in Hungary that can credibly guarantee that the applicants would have accommodation and financial support during his or her stay are well-poised to receive it. Not surprisingly, the national visa did not become popular and only 1,000 were issued in the year of 2006. Moreover, the regular pre-Schengen visa that Hungary issued – until it joined fully the Schengen zone – to Serbians and Ukrainians, was much, much easier to get. As long as it was available until 2007, applicants were not motivated to apply for a national visa.

In sum, Hungary's original ambition to outweigh the negative consequences of Schengen membership was significantly scaled back from 2000 to 2005 for

three reasons. One, the majority of the Schengen 'iron curtain' fears lost ground with Slovakia's and Romania's EU accession. Two, Hungary itself did not immediately become a full Schengen member from 2004, so the Schengen visa restrictions arrived in smaller and more absorbable portions, which gave the country some room to maneuver in preserving more permeable borders. Three, the EU has shown flexibility in recent years in offering small, but important concessions to ease the access of nationals from non-applicant ECE countries that feature on the 'black' visa list to the Schengen zone. The two most important of these achievements are the conclusion of visa facilitation agreements with all the non-applicant neighbors and the reintroduction of local border traffic.<sup>5</sup>

### **The impact of EU visa list transfer on ECE's tourist industry**

Regarding the detrimental impact of visa regulations on the tourist industry, the most visible case to observe this was that of Bulgaria, whose economy relied heavily on tourism. The majority of tourists came from the former Soviet republics, especially from Ukraine and Russia. But the harmonization with the EU visa regime was a pre-requisite for Bulgaria's removal from the EU visa list. Visa obligation was introduced on Russian, Ukrainian, and Macedon citizens in October 1, 2001 (Jileva 2002: 689). Concerning Turkey, visa regulations were already in place by 2001, however, Turkey lifted reciprocal visa obligations for tourists coming from Bulgaria in 2001<sup>6</sup>. Several signs show the controversial nature of these measures for Bulgaria. In August 2002, the Bulgarian Foreign Ministry released a statement responding to public and media concerns regarding the reduced turnout of Russian tourists in Bulgaria that summer.<sup>7</sup> The short report revealed that both Bulgarian diplomatic consulates (in Moscow and St. Petersburg) were entitled to issue visas and the number of issued visas reached record breaking levels and considerably surpassed the capacity of the two missions with over 1,700 visas issued per day in the period of April-August, 2002. The report added that nobody was rejected. The report claimed that the small number of organized tours was due to the weak advertisement campaigns of the holiday resorts. At the same time, the government extended the technical capacity of issuing visas. In July 2002, the Novosibirsk (Russia) consulate was developed to be able to cover tourism-related tasks. Another sign that Bulgaria did not want to consider visa issuance as a tool to sort cross-border flow from Russia occurred in early March 2003 when it tried to accommodate Russian tourists as much as it could. President Georgi Parvanov signed an executive order which intended to reduce the length of time needed for Russians to apply for

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<sup>5</sup> I discussed elsewhere the EU's moves to accommodate some of the border control concerns of the new member states (Dancsi 2008).

<sup>6</sup> News posted on [www.novinite.com/view\\_news.php?id=930](http://www.novinite.com/view_news.php?id=930) (Retrieved in December 2003).

<sup>7</sup> Please see the statement at [http://www.mfa.government.bg/index\\_en.html](http://www.mfa.government.bg/index_en.html) (Retrieved in December 2003).

visas down to 24 hours<sup>8</sup>. He justified this move saying that the majority of Russian visitors are businessmen and tourists, whose visits are beneficial to the economy.

It is hard to think of any other creative technique to ease the constraints involved in being subjected to visa requirements than the ones that are deployed by the new EU members. Lax visa issuance, giving them free of charge, within a few days or in 24 hours, via travel agencies, without personal interviews, with extremely low rejection rates and opening new diplomatic missions that operate with longer working hours are almost all that could be done to marginalize the visas' filtering role while remaining in compliance with EU regulations.

### **Conclusions**

Such permissive visa issuance was a deliberate political strategy by ECE governments carried out until they became full Schengen members. They preferred this strategy to avoid accusations that they were erecting a 'new iron curtain' between themselves and their fellow ethnic nationals or important tourist and business partners in non-applicant countries.

Until now, it seems, the new visa-curtain predictions have not proved to be happening. However, it is too early to tell the real effects of new members' subjecting their non-applicant eastern neighbors to Schengen visa requirements. This measure was introduced very recently, on December 21, 2007, when new members joined the frontier-free zone and checks on their internal borders were lifted. Moreover, for an additional six months (until July 2008) the old pre-Schengen visas that were issued until December 2008 by new EU members to the citizens of their non-applicant neighbors are valid and are accepted as an entry permit to new EU member states. Not enough time has elapsed since July 2008 to offer a credible account on the real effects of subjecting non-applicant EU neighbors to Schengen visa requirements. It is yet to be seen whether visa iron curtain fears are fulfilled since new EU member states have become full participants of the Schengen cooperation.

### **Abstract**

This study investigates ECE's visa arrangement in the post-1989 period. The aim is to give a sense of the magnitude and the restrictive direction of the visa policy reconstruction new members undertook between 1989 and 2007 due to eastern EU enlargement. The study argues that new EU member states were particularly unkeen on aligning their visa regime with that of the EU. A few of the strategies to ease the burden of EU visa list adoption until 2007 (when they fully joined the Schengen-zone) are discussed with an attention given to the Hungarian case.

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<sup>8</sup> Please see the news at <http://english.pravda.ru/diplomatic/2003/03/03/43938.html> (Accessed in December 2003).

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BEATA MOLO

## Germany's role in shaping the EU's energy security at the end of the first decade of the twenty-first century

Germany as the largest energy consumer and importer of fossil fuels is an important participant in the EU energy market. Ensuring stable and sustainable energy supplies, mainly oil and natural gas, constitutes the goal of German energy security policy, both at the intrastate as well as at European Union level.

The aim of this study is a comprehensive presentation of the role and importance of Germany in shaping the European Union's energy security, taking into account the demand for primary energy in Germany and in the EU, Germany's main objectives and priorities in respect to energy policy and energy security as well as implications of Germany's involvement in shaping the EU's energy security.

### **1. Demand for primary energy in Germany and the European Union**

#### a) Demand for primary energy in Germany

In 2007, the structure of primary energy consumption in Germany was as follows: mineral oil – 33.4%, natural gas – 22.6%, hard bituminous coal – 14.3%, lignite – 11.6%, nuclear power – 11, 1%; renewable energy sources – 7%<sup>1</sup>.

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<sup>1</sup> *Zahlen und Fakten. Energiedaten. Nationale und Internationale Entwicklung*, Erstellt vom Bundesministerium für Wirtschaft und Technologie, 2009, <http://www.bmwi.de/BMWi/Navigation/Energie/energiestatistiken.html>.

The share of primary energy sources in overall consumption has not changed substantially in recent years. For example, in relation to 1990, the proportion of mineral oils has decreased by almost 2%, of hard bituminous coal and lignite, respectively by 1.2% and 9.9%, on the other hand, the share of natural gas has increased by 7.2%, and that of renewable energy sources – by more than 5% (see Table 1).

Table 1: Primary energy consumption in Germany according to respective sources in 1990 and 2007

|                       | 1990  | 2007  |
|-----------------------|-------|-------|
| Mineral oils          | 35%   | 33,4% |
| Hard bituminous coal  | 15,5% | 14,3% |
| Lignite               | 21,5% | 11,6% |
| Natural gas           | 15,4% | 22,6% |
| Nuclear energy        | 11,2% | 11,1% |
| Wind and water energy | 0,4%  | 1,6%  |
| Other                 | 1,1%  | 5,4%  |

Source: Developed on the basis of Bundesministerium für Wirtschaft und Technologie data.

On the basis of the abovementioned data, it should be stated that mine sources of energy, namely mineral oils, particularly petroleum and natural gas have the greatest share in the German energy supply. Given the ambitious plans for reducing greenhouse gas emissions by 40% by 2020, the share of renewable sources of energy is constantly rising in the overall consumption of primary energy.

Germany covers about 40% of primary energy demand from its own sources. Brown coal and renewable energy sources are the most important primary domestic energy sources. However, on account of the importance of oil and natural gas in meeting energy needs and due to low extraction of these raw materials – 3% and 15% respectively (2007) – Germany is dependent on their supplies from abroad. Russia is the most important supplier of crude oil and natural gas (see Table 2).

Table 2: Major exporters of natural gas and oil to Germany (2007)

| The direction of natural gas origin | Share in % | The direction of oil origin | Share in % |
|-------------------------------------|------------|-----------------------------|------------|
| Russia                              | 37         | Russia                      | 31,8       |
| Norway                              | 26         | Norway                      | 15,8       |
| Netherlands                         | 18         | United Kingdom              | 12,8       |
| Denmark/United Kingdom              | 4          | Libya                       | 10,2       |

Source: Developed on the basis of Statistisches Bundesamt, Bundesministerium für Wirtschaft und Technologie data.

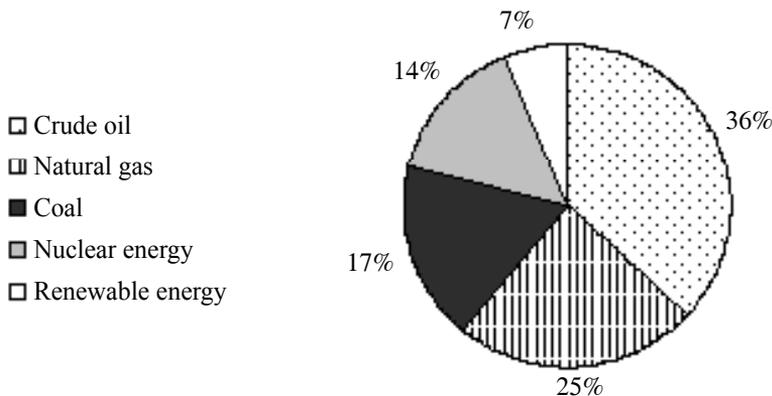
The volume of primary energy consumption is dependent on economic growth. According to the forecast published in 2005<sup>2</sup>, the structure of primary energy consumption in Germany will be fundamentally changed by 2030. It is estimated that the share of natural gas in energy mix will increase to 32%, and that of renewable energy sources – to 11.5%. The source of primary energy which will lose in its importance will be hard bituminous coal. Its share will fall below 7%. Conversely, the share of lignite will remain at the current level, namely around 11%. Mineral oils, especially crude oil, will remain the most important energy source in energy mixture. Their share in the total primary energy consumption will amount to 38%. Such considerable growth of the share of natural gas and crude oil in the overall primary energy consumption will increase Germany's dependence on importing these raw materials.

### b) Demand for primary energy in the EU.

The EU share in the world primary energy consumption amounts to 16%. Germany is rated among the largest consumers of energy – with the absolute share of 20%, before France – 15.6% and the UK – 13.4%.

According to Eurostat data, almost 80% of energy consumed in the European Union comes from fossil fuels, namely crude oil, natural gas and coal. In general consumption of primary energy the share of nuclear energy amounts to 14%, and that of renewable sources – to about 7% (see Diagram 1).

Diagram 1: Consumption of primary energy in the EU



Source: IEA Energy Policies Review. The European Union, IEA 2008, p. 20.

<sup>2</sup> EWI/Prognos-Studie. Die Entwicklung der Energiemärkte bis zum Jahr 2030. Energiewirtschaftliche Referenzprognose. Energiereport IV – Kurzfassung, Dokumentation Nr. 545, 2005 Bundesministerium für Wirtschaft und Arbeit, [http://www.bmwi.de/BMWi/Redaktion/PDF/Publikationen/Dokumentationen/ewi-prognos\\_E2\\_80\\_93studie-entwicklung-der-energiemaerkte-545.property=pdf,bereich=bmwi,sprache=de,rwb=true.pdf](http://www.bmwi.de/BMWi/Redaktion/PDF/Publikationen/Dokumentationen/ewi-prognos_E2_80_93studie-entwicklung-der-energiemaerkte-545.property=pdf,bereich=bmwi,sprache=de,rwb=true.pdf).

The EU is one of the largest importers of natural gas and crude oil. By means of its own resources, the EU accounts for about 40% of the demand for natural gas and 14% for crude oil (see Table 3)<sup>3</sup>.

Table 3: Geographical structure of the origin of natural gas and crude oil in the EU (2005)

| <b>The direction of natural gas origin</b> | <b>Share in %</b> | <b>The direction of crude oil origin</b> | <b>Share in %</b> |
|--|-------------------|--|-------------------|
| EU-27                                      | 43                | EU-27                                    | 14                |
| Russia                                     | 24                | Russia                                   | 29                |
| Norway                                     | 13                | Norway                                   | 15                |
| Algeria                                    | 11                | Saudi Arabia                             | 9                 |
| Nigeria                                    | 2                 | Libya                                    | 8                 |
| CIS (without Russia)                       | 2                 | Iran                                     | 5                 |
| Qatar                                      | 1                 | Kazakhstan                               | 4                 |
| Libya                                      | 1                 | Algeria                                  | 3                 |
| Other                                      | 3                 | Other                                    | 14                |

Source: Ibidem, p. 62, 64.

The data in Table 3 shows that the most important supplier of blue fuel to the EU market is Russia which – by means of pipelines – provides 24% of the total import of this raw material.

The level of the EU Member States' dependence on Russian gas supplies is quite diversified. Without going into a series of specific questions, it should be stated that the new Member States are much more dependent on imports of blue fuel from Russia than the so-called G15 countries. The latter import around 73% of their annual gas consumption from Russia, while such countries as Estonia and Bulgaria are entirely dependent on Russian raw material.

As far as geographical composition of oil imports by the EU is concerned, the following countries are of crucial importance: Russia, Norway, Saudi Arabia and North Africa (Algeria and Libya). Russia and Norway jointly provide 44% of the total EU import of raw materials. Their position as major importers results from geographical proximity, in the case of Russia the latter is also linked to the existing transmission system to the countries of Central and Eastern Europe and Germany.

It is emphasised that the EU's import dependency in the energy sector will grow in the ensuing years. The basic reasons of this growth include, among others, rising energy demand and depletion of indigenous fossil fuel resources, mainly crude oil and natural gas in the North Sea. According to the forecasts of the International Energy Agency (IEA), EU's dependency on primary energy imports will

<sup>3</sup> IEA, *Energy Policies Review. The European Union*, IEA 2008, p. 27.

rise from more than 50% (see Table 4) to 64% in 2020 and 67% in 2030 – in case of crude oil – to 95% in 2030, while in case of natural gas – from 58% to 84% in 2030<sup>4</sup>.

Table 4: The level of energy dependence of the EU Member States (2005)

| <b>Country</b> | <b>Level of dependency<br/>in %</b> |
|----------------|-------------------------------------|
| EU-27          | 52,3                                |
| Belgium        | 78,3                                |
| Bulgaria       | 47,1                                |
| Cyprus         | 100,7                               |
| Czech          | 27,4                                |
| Denmark        | -51,6                               |
| Germany        | 61,6                                |
| Estonia        | 25,8                                |
| Ireland        | 89,5                                |
| Greece         | 68,5                                |
| Spain          | 81,2                                |
| France         | 51,6                                |
| Italy          | 84,4                                |
| Latvia         | 56,0                                |
| Lithuania      | 58,4                                |
| Luxembourg     | 98,0                                |
| Hungary        | 62,9                                |
| Malta          | 100,0                               |
| Netherlands    | 37,8                                |
| Austria        | 71,8                                |
| Poland         | 18,0                                |
| Portugal       | 88,2                                |
| Romania        | 27,4                                |
| Slovenia       | 52,2                                |
| Slovakia       | 64,6                                |
| Finland        | 54,7                                |
| Sweden         | 37,2                                |
| United Kingdom | 13,9                                |

Source: Eurostat. Energy, transport and environment indicators, 2007, p. 20.

Summing up, natural gas and crude oil are of great importance for energy supply both in Germany and EU-27. In order to meet the growing demand for these

<sup>4</sup> IEA, op. cit.

materials, and due to declining national resources, the EU states will be increasingly dependent on the supplies from abroad, mainly from Russia. In this context, the problem of energy security will become increasingly important.

## **2. Germany's objectives and priorities in the area of energy policy and the EU energy security**

Germany undoubtedly belongs to the supporters of a common EU energy policy but its position on specific issues differed from the concept of the other members of the EU and from that of the European Commission. This is due, inter alia, to the specificities of the energy situation in Germany. Firstly, Russia is Germany's most important supplier of crude oil and natural gas and its strategic partner<sup>5</sup>. An important element of Russian-German energy cooperation is the construction of the northern gas pipeline. The need to develop this cooperation was often emphasised by the Minister of Foreign Affairs – Frank-Walter Steinmeier<sup>6</sup> who stressed that Russia is also an important partner at the European level.

Secondly, the gradual withdrawal from nuclear energy production over the next 30 years, being the result of the decision taken by the government of the SPD / Alliance 90' / The Greens in 1999, raises controversies, particularly that the Commission views the latter as an important future source of energy.

One of the issues that were addressed in the White Paper published in 2006, concerning Germany's security and future of the Bundeswehr<sup>7</sup>, was the problem of energy security.

The document stated that a balanced energy supply which satisfies the requirements of competition is of strategic importance for the future of Germany and Europe. It was stressed that energy problems will in future play an important role in shaping the global security. The document also listed the following global challenges: the world's increasing energy needs and a growing international and interregional trade in energy, the risk of proliferation, the requirements of climate protection and the need to provide the developing countries with the access to energy resources in order to improve their opportunities for economic development. It was noted that the growing dependence of Germany and Europe on fossil energy requires the intensification of the dialogue and cooperation with the countries that take part in production, transit and consumption. What has been deemed essential for energy security was a diversification of energy sources, de-

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<sup>5</sup> Compare: R. Götz, *Russland als Energieversorger Europas und Deutschlands*, „WeltTrends“ Mai/Juni 2009, pp. 33–43.

<sup>6</sup> *Internationale Aspekte der Energiepolitik*, Rede von Bundesaußenminister Steinmeier beim zweiten Energiegipfel der Bundesregierung, 09.10.2006, <http://www.auswaertiges-amt.de>. *Energie-Außenpolitik ist Friedenspolitik*, Frank-Walter Steinmeier, „Handelsblatt“ 22.03.2006, <http://www.handelsblatt.com>.

<sup>7</sup> *Weißbuch2006. Zur Sicherheitspolitik Deutschlands und zur Zukunft der Bundeswehr*, 2006, Bundesministerium der Verteidigung, Online Ausgabe, <http://www.bmvg.de>.

velopment of national renewable energy sources as well as reducing energy needs through efficient use of energy. What is also crucial is the maintenance of security infrastructure.

On 6 November 2008, the federal government adopted the report on the national strategy in the crude oil and natural gas sector (*Bericht der Bundesregierung zur Öl- und Gasmarktstrategie*)<sup>8</sup>. Although this document is devoted mainly to Germany's energy strategy (with a particular emphasis on natural gas and crude oil), it also contains assumptions and goals of the EU's energy security from German perspective.

The report states that in order to reduce the EU's dependence on imported energy, one should increase energy efficiency and increase the share of renewable energy sources while reducing fossil fuel share in energy mix. Moreover, what is vital to ensure energy supply is the internal market with comparable conditions of competition in all the EU Member States. It was stressed that security of energy supply requires significant investment in infrastructure both within the EU, as well as connections with third countries (such as liquefied natural gas terminals, pipelines, new power plants). What was considered as important was political dialogue with the countries that are producing crude oil and natural gas, but what was at the same time highlighted was a particular importance of Russia as a supplier of fossil fuels and the need to develop cooperation with the latter in the energy sector.

Summing up, in order to enhance security of energy supply in the EU, Germany calls for:

- = diversification of energy sources and transport routes;
- = intensifying the dialogue with major producers, transit countries and consumers of fossil fuels, using the various instruments and levels of cooperation;
- = increasing investment in energy infrastructure.

Improving energy efficiency by saving primary energy consumption and developing alternative energy sources also constitute an integral element of the efforts aiming at the EU's energy security.

### **3. Implications of Germany's involvement in shaping the EU's energy security**

The problem of ensuring safe, environmentally friendly and competitive energy supply has become an important objective of the German Presidency of the European Union<sup>9</sup>.

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<sup>8</sup> *Bericht der Bundesregierung zur Öl- und Gasmarktstrategie*, <http://www.bmwi.de/BMWi/Redaktion/PDF/B/bericht-der-bundesregierung-zur-oel-und-gasmarktstrategie.property=pdf,bereich=bmwi,sprache=de,rwb=true.pdf>.

<sup>9</sup> See: K. Notz, *EU-Energiepolitik als Herausforderung für die deutsche Ratspräsidentschaft*, „CAP-Aktuell“ No. 3 March 2007.

The programme of German Presidency<sup>10</sup> stressed that the safe, economically viable and ecological energy supply is a key task of the prospects for future economic development in Europe. Ensuring such supply is becoming increasingly difficult due to limited resources of fossil fuels and on account of rising global demand, continuous growth of crude oil and natural gas prices, increasing instability in certain regions of the world and the effects of climate change.

It was stressed that in order to achieve the three objectives, namely security of supply, efficiency and compliance with environmental requirements, one should reduce demand for energy imports by increasing energy efficiency, energy conservation and greater use of renewable energy (also in the heating and cooling), encouraging closer cooperation with manufacturers, consuming and transit countries as well as formulating development-oriented energy policy.

An action Plan of the European Council (2007–2009) – the European Energy Policy – was agreed on at the European Council of 8–9 March 2007<sup>11</sup>.

It was indicated in the Presidency conclusions that the European energy policy in a spirit of solidarity between the Member States should strive to achieve three objectives:

- increased security of supplies;
- ensuring the competitiveness of the European economies and the availability of energy at a competitive price;
- promoting environmental sustainability and combating climate change.

The EU Member States committed themselves to reducing greenhouse gas emissions by 2020 by 20%, as compared to 1990, to increase energy efficiency by 20% and increase the share of renewable sources of energy in overall EU energy consumption to 20% by 2020. The countries also assumed the obligation to increase by 10% the share of biofuels in overall consumption of petrol and diesel for transport within the EU by 2020.

The document also stressed the importance of diversifying sources and routes of energy supplies and declared the extension of the EU “solidarity mechanisms” in crisis situations. In the area of the external energy policy, in turn, the countries declared to develop a common position of the EU in the context of dialogue with producing countries.

Germany’s success was undoubtedly the fact that the latter managed to agree a package of the EU’s activities, especially in promoting the development of renewable energy sources and increasing energy efficiency, which was in line with the priorities of the German presidency. Significantly, during German presidency

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<sup>10</sup> “*Europa – razem do sukcesu*” (‘Europe – Together for Success’). The Programme of German Presidency, 1 January – 30 June 2007, “European Monitor” 2007, no 33, pp. 54–86.

<sup>11</sup> The European Council in Brussels. Presidency Conclusions. Brussels 8–9 March 2007 [in:] [http://www.ukie.gov.pl/HLP/moint.nsf/0/EEAEB53A8B6C92BAC125732A00364671/\\$file/ME\\_34\(107\)04.pdf?Open](http://www.ukie.gov.pl/HLP/moint.nsf/0/EEAEB53A8B6C92BAC125732A00364671/$file/ME_34(107)04.pdf?Open).

the “Strategy for Central Asia” was adopted which was considered a manifestation of German activities to strengthen the EU’s cooperation with the Middle East natural gas producers.

On 13 November 2008, the European Commission published its “Second Strategic Energy Review”<sup>12</sup>.

The abovementioned document stressed the need for the adoption and rapid implementation of measures to achieve the objectives of the European Council’s energy policy, i.e. a 20% reduction in greenhouse gas emissions, 20% share of renewable energy sources in total energy consumption and improving energy efficiency by 20% by 2020.

The “Action plan for energy security and solidarity” which constituted an integral part of the “Second Strategic Energy Review” showed that the implementation of the abovementioned objectives will reduce the previously projected energy demand in the EU by 15% by 2020, while the imports of energy resources – by almost 26 %.

The European Commission document includes a number of provisions that were discussed in the abovementioned report of the Federal Government of Germany of 6 November 2008, for example, developing cooperation with Russia which should provide the European companies with an access to Russian natural resources while preserving their efforts to diversify supplies (especially from the Caspian region) and the need to cut energy consumption in order to reduce dependence on foreign supplies.

The assumptions of the “Second Strategic Energy Sector Review” and, in particular, its “package of actions to increase energy security and solidarity” remain in close relation with a package, presented on 28 January 2009 by the European Commission, containing, among others, proposals for investment in major infrastructure projects in the energy sector with a value of 3.5 billion euro, including:

- 1.75 billion euro for gas and electricity projects, 70% of which would serve to expand gas and electricity interconnections. The European Commission allocated 350 million euro for the implementation of the Southern Gas Corridor, designed to allow gas exports from the Caspian region and from the Middle East, independently from Russia, whereas 70% of this amount was allocated for the Nabucco pipeline and 30% for interconnection between Greece and Italy;
- a further 1.75 billion euro would be allocated for projects that could contribute to reducing the development of gas power stations and the ensuing increase in gas imports by the European Union. The EC suggested support for projects of CO<sub>2</sub> capture and storage as well as for plans to improve infrastructure enabling to obtain energy from renewable sources. According to the EC, the implementation of new

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<sup>12</sup> *Second Strategic Energy Review – Securing our Energy Future*, European Commission, November 2008 [in:] [http://ec.europa.eu/energy/strategies/2008/2008\\_11\\_ser2\\_en.htm](http://ec.europa.eu/energy/strategies/2008/2008_11_ser2_en.htm).

investments could increase the EU's energy security and result in recovery of the economy in the times of crisis<sup>13</sup>.

The abovementioned package aroused controversies in Germany<sup>14</sup>. In the letter of 29 January 2009 – which was quoted by the media – written to the President of the European Commission, Jose Manuel Barroso, and to Czech Prime Minister, Mirek Topolanek, Chancellor Angela Merkel rejected the proposals contained in the infrastructural programme, arguing that these projects will be implemented in 2009–2010, and therefore they cannot be cyclical programmes. At the same time, the Chancellor called for equal political support for both the Nabucco project, as well as North Stream and South Stream projects. According to A. Merkel, the three projects would lead to a greater security of gas supply by means of diversifying transit routes and suppliers. In this context, she stressed the need to maintain a uniform position of the EU in relations with producing and transit countries<sup>15</sup>.

After several weeks of negotiations between the EU Member States and the European Commission, the European Council Summit – on 19–20 March 2009 – accepted a plan for supporting economy by means of subsidies from the EU budget, including also energy projects, for which 3,98 billion euro was allocated. Importantly, the Nabucco pipeline remained on the list of priorities. The latter was allocated 200 million euro and it is deemed to be an alternative way for gas supply to the EU market vis-à-vis the material supplied by Gazprom.

### Conclusions

1. Germany is in about 60% dependent on energy supplies, primarily crude oil and natural gas from abroad, mainly from Russia. Growing global demand for fossil fuels is rated among the threats to Germany's as well as EU's energy security.
2. Germany aims to enhance its energy security by diversifying energy sources, developing national renewable energy sources as well as reducing energy needs through efficient use of primary energy. In the medium and long term the latter will also serve the purpose of reducing greenhouse gas emissions.
3. Germany – being the largest energy consumer and importer of fossil fuels in the EU – plays a key role in shaping the EU energy policy and security. It was particularly during its presidency of the European Union in the first half of 2007, when Germany engaged in forcing its own concept of the EU energy policy, including the increase in the share of renewable sources of energy in the overall primary energy consumption and improving energy efficiency.

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<sup>13</sup> "BEST", OSW, 5 February 2009, pp. 2–4.

<sup>14</sup> Compare: F. Umbach, *Motor oder Bremsklotz? Deutschland und die Energie(aussen)politik der Europäischen Union*, „WeltTrends“, May/June 2009, p. 51.

<sup>15</sup> *Financial Times Deutschland*, 29.01.2009, <http://www.ftd.de>.

4. Germany also engages in activities aiming at developing energy dialogue with Russia and reinforcing the EU cooperation with producers from Central Asia, which should lead to a greater security of energy supply through diversification of transit routes and suppliers.



IMRE EGRI

## International Logistical Trends

Keywords: project, management, logistics, trends

### **Introduction**

Globalisation, defined as the internationalisation of productive forces, is considerably determined by the development of logistics. Logistics has always provided a technical framework for the international economic relationships. The frames of economic relations are limited by the facilities of logistics.

Today the technologies of transportation and forwarding are extended with new technical, IT, organisational and financial means, accompanied by new international legal frames of cooperation. The logistical approach conquers new areas that have been unknown before.

### **New legal opportunities**

The development of international trading is followed by not only the logistics but also the international law. Thus, the integration organisations, the European Union, WTO and the several regional commercial organisations open new opportunities for logistics, too. Thanks to this process, enterprises or commercial, servicing structures that have not been in custom before, may emerge. The uniformisation of the insur-

ances, the financing, the customs system and the international standards facilitate the connection of logistic systems. The existing “Special Zones” allow co-operation among areas and countries that can hardly be connected in legal terms; therefore, international industrial-logistic parks, intermodal logistics centres have been established based upon the model of international free ports.

### **New organizational forms**

The organizational enrichment of logistic centres could first be observed in the development and diversity of services. This process was followed by the emergence of intermodality (the meeting of several branches of transport). Today the merging, the symbiosis of logistics and industrial parks are taking place. The service of industrial parks had to be extended with logistics services and, at the same time, the services of logistics parks broadened with industrial activities. This made mutually necessary the establishment of integrated logistic parks.

Another form of organising is networking, which is still in its initial phase and has also emerged in industrial parks. With the enrichment of the forwarding activity and the utilisation of IT, networking promotes the enhancement of specialisation, better exploitation, the management of several logistics bases in one system, resulting in considerable savings.

The organising can be related to the changes in the new settlement aspects of industrial, logistic parks.

While the main settlement aspects of industries, including logistics, were the raw materials and resources until the 1950s, the key motive for settlement became the market by the turn of the millennium. Therefore, the supply of markets became the determinative aspect. This makes the supply of goods flexible, shortens the route of finished products and the creation of effective, complex unit loads.

### **New techniques in logistics**

By the turn of the millennium, the traditional logistic technologies brought about considerable changes in both the internal (manufacturing, plant) and the external (transportation, international) logistics. This promoted the enhancement of specialisation and the fulfilment of automation with containers (unit loads). As a result, through the intermodal logistic centres unit loads can smoothly flow through the various logistic channels (road, rail, water). According to this trend, passenger and cargo transport have clearly separated in the development of rail transportation. Road transport, including both the roads and the vehicles, has also continued to specialise. The development of the special water transport began even earlier, during which not only the ships specialised, but the ports as well. The same trend can be observed in air transportation, too. The whole system is connected by the complex

intermodal centres. Pipeline and line public utilities (oil refineries) join these intermodal centres at more and more points.

In the manufacturing (plant, internal) logistics, automated production offers new challenges; the tolerance times of the JIT system have become shorter. Logistics is required to reach the precision of production automata, which necessitates the full-scale application of IT.

### **The application of new IT elements**

By the turn of the millennium, IT and telecommunication reached a state of development that allows immediate information flow from and to any part of the world.

This process first expanded the opportunities of forwarding activities (contacts became immediate and multi-faceted).

Another important opportunity was offered by satellite route planners and consignment monitoring. The RFID and Galileo Programs, having an immediate impact on globalisation, are under continuous development.

IT and the Internet allow a continuous contact among the raw material production, the background industry, the supply chain, the processing, the production, the commercial network and the consumer. This global system brings about considerable economic savings, promoting the full-scale application of JIT.

The latest result of the logistic-industrial park application of IT is the establishment of virtual industrial parks. Here producers and processors located in a long distance from each other geographically can connect a single system.

### **New sectors and areas in logistics**

Logistic thinking is the discipline of not only the commodities (raw materials and finished products) but the flow of economic resources, and it appears in various new fields. It is more and more efficiently applied in city logistics, which is today becoming an independent frontier discipline and may optimise the commodity and public utility, energy and information supply of villages, towns and cities. The harmony of city life requires the involvement of new areas for the efficiency of settlement development and operation.

A special field of inter-city logistics is passenger logistics, while human resource logistics related to transport sciences can be useful within cities as well. Agricultural and food logistics, which used to belong to industrial logistics, show a promising developmental path, too. The features of food production necessitated the birth of a special logistic field. Homogeneous financial logistics, where the continuous change in the product value (exchange rate) plays a significant role, is an interesting area, too. It can be stated that logistics is not a special production knowledge any longer but a way of thinking, a problem-solving method.

## The development of interdisciplinarity

Being the joint result of economic and engineering sciences, logistics cannot exist any longer without the science and achievements of IT. Further development is based upon the connection of economic and organisation sciences, the most recent technical improvements as well as the state-of-the-art IT devices and information. Optimisation and efficiency improvement presume the practical application of mathematical tools. Therefore, algebra, calculus of probability or the theory of Mandelbrot sets can be turned into practical results.

Based upon the above, the traditional logistic fields are extended with new services. Consequently, the development of international economic organisations opened new legal opportunities to the logistic service providers. The new organisational forms were provided new opportunities by the legal opportunities and the new organisational methods, especially networking. Logistics may improve qualitatively with the application of new techniques, producing new results in mass customisation, the shortening of delivery times and the temporal and spatial accuracy. IT has revolutionised the facilities of product monitoring and control and allowed the connection and simultaneity of the product and the information flow. Logistics has entered new fields and new logistic sectors have emerged in recent years; city logistics has become common, while agricultural and food logistics are more and more desirable. Passenger logistics intends to enhance the comfort of passenger transport.

The above development could not have started if the discipline and practice of logistics were not characterised by interdisciplinarity, i.e. the joint presence of the practice-oriented areas of economic and technological sciences, IT and mathematics.

### Abstract

Today the technologies of transportation and forwarding are extended with new technical, IT, organisational and financial means, accompanied by new international legal frames of cooperation. The logistical approach conquers new areas that have been unknown before. This study investigates what new legal opportunities, organizational forms, techniques, IT elements and sectors have emerged in logistics.

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GERGELY NAGY

## „PPP” investments – inspection and qualification

Keywords: investment of the GDP in EU, the PPP construction, public sector, audit regrades Hungarian PPP from private to public investment, comparison of risks,

### **Introduction**

Over the past 20–30 years, extensive economic literature has been published all around the world about the role of State and its importance in economy. The recent years have seen the reconsideration of the role of State, the exodus of the latter form certain areas only to let them over to the private sector. “Privatization” and its relationship with government agencies has also become a most disputed issue. The former Soviet republics and a lot of other nations in Eastern Europe have privatized their formerly state-run companies, but the states and cities in the EU and the USA opted to sell the assets and certain activities from prison management to parking card collection. (*Resource: 16*)

The debate about the direct economic activities of government and local government agencies speculates on whether the State is doing the right job and if it is doing it effectively enough. Surveys question the participation of State in healthcare, culture, education and the development of infrastructure, as these costs have skyrocketed over the past years. Governments have had to convert so much fund to these that, if this tendency continues, budgets will have to face pretty serious consequences in the years to come.

Recently, there has been an increase of former state duties going over to private hands with a sign of cooperation between the State and the private sectors.

British economist Anthony Giddens (Resource 2) writes in his book “The Third Way” that the aim of cooperation between the private sector and the State in the scope of public services is to improve the functionality and effectiveness of economy. In fact, this “third way” concept is but a blend of Keynesian economics that emphasises the importance of government policies and of the neo-liberal views that proclaim the omnipotence of market conditions. My essay investigates whether the way certain government investments are implemented by the private sector in Hungary – called PPP investments – corresponds to Giddens’s statements in the case of Hungary, namely whether these investments really turn out to be more cost-effective or there is something else behind the growing number of PPP investments.

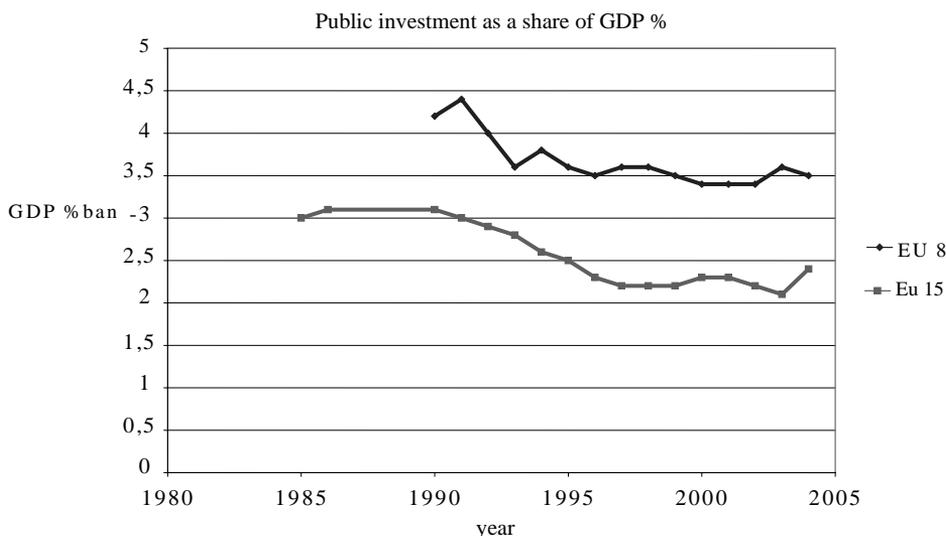
### Direct government investments and the PPP in the EU countries

In pre-enlargement EU countries, the role of State in direct government policies have been decreasing since the 1970s.

While in the 1970s, the 15 EU member states spent 4.5 per cent of the GDP on direct investment, this figure had decreased to 3% by the year 1990s, and decreased to 2–2,5 per cent by the early 2000s.

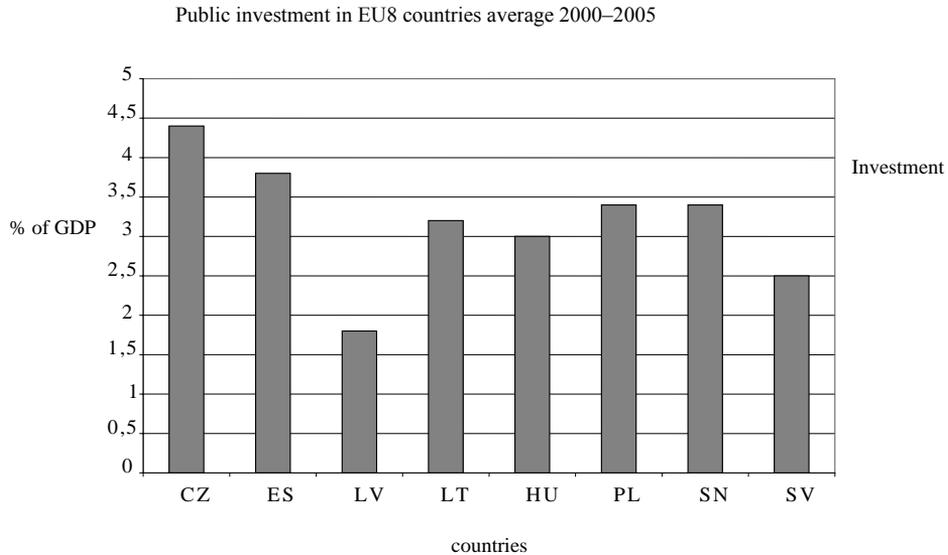
This proportion was higher – 3 to 4.5 per cent – for countries that joined the European Union later. : (Resource: 13)

Figure 1:



In the new EU countries (EU-8) in east Europe the public investment was the highest in Czech Republic with 4,5% of GDP, and the lowest in Lithuania with 1,8% of GDP average 2000–2005. In Hungary the public investment was about 3% of GDP.

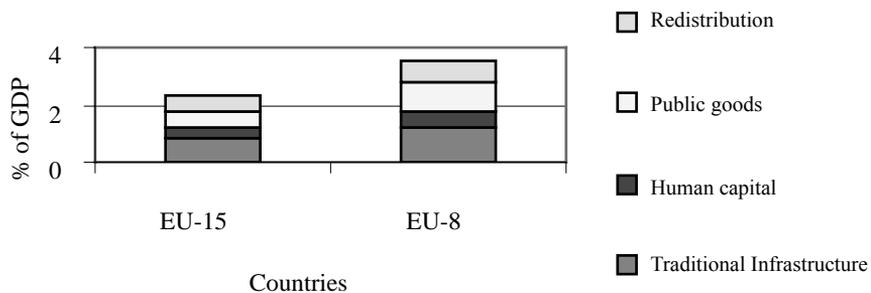
Figure 2:



For the 15 EU countries, nearly half of direct government investments were made in the development of infrastructure between 2000 and 2005.

Figure 3:

Composition of public investment  
in % of GDP, average 2000–2005



In most of the newly joined countries, the share of public property has decreased while previously unknown factors, e.g. unemployment or bankruptcy have appeared. Also, the amount of payments deriving from public property have gone down and the possibility of gaining revenues from the formerly considerable management and transfer of assets has decreased.

At the same time, social, healthcare and administration costs – and, in general, the fiscal deficit – have risen.

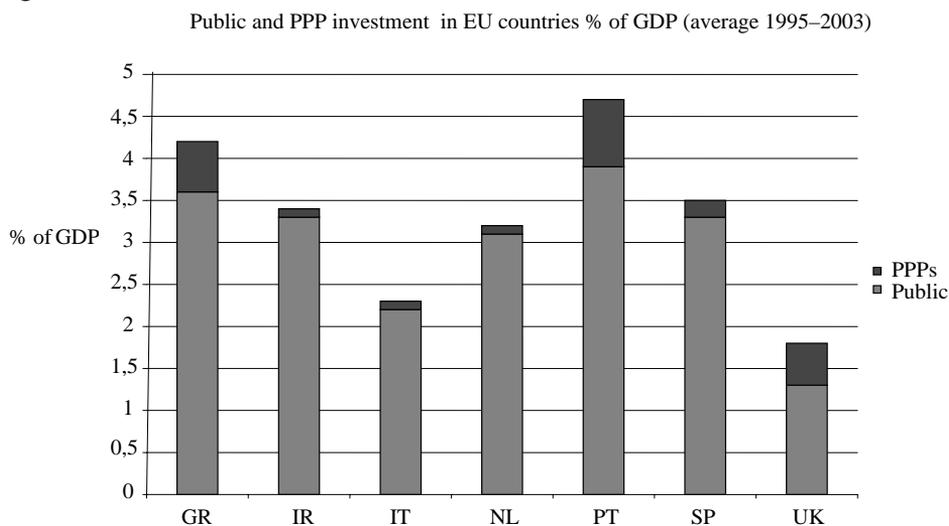
Some countries tried to moderate the deficit by subduing investment expenditure and started looking for solutions to extenuate the costs when an investment was completed.

In 1995, the European Union presented new solutions which, instead of postponing the so-called conventional investments ordered by either government or local government agencies, could be implemented in cooperation with the private sector in a way that investments were made in spite of the lack of funds, but they still did not appear as deficit. Due to the effective nature of the private sector, the investment had become cheaper.

Such a possible solution was the PPP (Public Private Partnership) construction which served for implementation of projects which were ordered by a local authority, in economic interest or decided on by political circles. Here it was not necessary for the total historic value to be there, nor did the costs of such investments make the fiscal deficit grow.

The PPP construction was applied chiefly in Portugal, the United Kingdom and in Greece during the period 1995 to 2003. Then it spread on to other EU countries – Hungary, among others.

Figure 4:



The PPP construction appeared in Hungary between 2003 and 2004. It was considered a suitable means to replace some of the government investments.

The PPP construction stands for a partnership between the public and private sectors. It is a form of cooperation between the public and private sectors where the parties jointly take the risk and responsibility for providing public services.

In the framework of PPP, the government involves the private sector in the fulfilment of public service mission or in the establishment, maintenance and operation of a facility or institution.

In the framework of PPP, the private sector makes investments and provides service to the State. It assumes government duties and in return is entitled to a service fee. (*Resource: 3*)

The PPP is attractive to apply as it offers a more favourable solution when it comes to the accrued settlement of a project (regarding the data used for Maas-tricht markers). Also, the PPP construction was chosen because, unlike conventional solutions e.g. direct government investment or leasing, it offers a lot more economical way of implementation with a lot less risk involved.

Further advantages of the PPP construction are:

- The PPP construction replaces a government investment in a way that it enables a lot more investments to be made from the same resource, as service fees can be delayed to a number of years ahead;
- Government expenditures can be planned in the long run. The fee is fixed and is only exposed to the effect of inflation;
- The higher efficiency of the private sector can be utilized during operation (cost-effectiveness during the construction works, skills during operation, etc.);
- A lot of investment risks can be devolved to the private sector.

### **PPP agreements – features, validity and legal regulations:**

For the PPP model, the State orders a long term – 20 to 30 year long – service fulfilment from the private sector.

The liability of a private company may cover the planning, implementation, operation of infrastructure and, at least partially, the financing of a project, while the State and/or the actual service user pays a service charge.

In long-term agreements, the principal is a government agency, e.g. Ministry, national agency, university or local authority. It is the State that plays the monitoring role as it coordinates and provides warranty.

Example: in the framework of the Central University Programme, the agreements on the reconstruction of new hostels as well as those on the development of research and development infrastructure are concluded by universities and colleges. The Ministry of Education offers a supplementary grant in addition to the own funds of the institutions.

Based on international experience, PPP structure application areas are the following:

- Road and railway infrastructure (roads, bridges, tunnels, railways);
- Public utilities and environmental investment (canalization, sewage treatment);
- Stadiums, sports courts and other sports facilities;
- Governmental and other buildings;
- Investment regarding penal institutions;
- Military investment (training and logistics centres, airports);
- Healthcare investment;
- Educational and cultural investment (schools, hostels, museums, congress centres).

During the period 2001 to 2007, PPP agreements were made in the above-mentioned areas in Bayern, Germany. (This country is very similar to Hungary that I am examining.)

Resource 15:

| <b>PPP agreements in Bayern, 2001–2007</b> |                      |                  |           |
|--|----------------------|------------------|-----------|
| Areas                                      | Agreements concluded | Current projects | Total     |
| Construction of schools and hostels        | 7                    | 5                | <b>12</b> |
| Home (for the elderly)                     |                      | 5                | <b>5</b>  |
| Sports facilities                          | 7                    | 1                | 8         |
| Waste management                           | 7                    | 1                | <b>8</b>  |
| Roads and bridges                          | 4                    | 1                | <b>5</b>  |
| Rational utilization of energy             | 3                    |                  | 3         |
| Cultural facilities                        | 3                    | 1                | <b>4</b>  |
| Offices                                    |                      | 1                | 1         |
| Other (e.g. prisons)                       | 4                    |                  | 4         |
| <b>Total</b>                               | <b>35</b>            | <b>15</b>        | <b>50</b> |

60 per cent of agreements – less than € 5m

12 per cent of agreements – between € 5m and € 10m

8 per cent of agreements – between € 10m and € 20m

6 per cent of agreements – between € 20m and € 30m

14 per cent of agreements – over € 30m

Basically, PPP agreements in Hungary were concluded in the same areas as abroad, but the agreement values are greatly dispersed.

| <b>PPP agreements in Hungary, 2003–2007</b> |                      |                  |            |
|---|----------------------|------------------|------------|
| Areas                                       | Agreements concluded | Current projects | Total      |
| Construction of schools and hostels         | 28+15= 43            | 8                | <b>51</b>  |
| Home (for the elderly)                      |                      |                  |            |
| Sports facilities                           | 12+22=34             | 3                | <b>37</b>  |
| Waste management                            | 0                    | 0                | <b>0</b>   |
| Roads and bridges                           | 5                    | 5                | <b>10</b>  |
| Rational utilization of energy              | 0                    |                  | 0          |
| Cultural facilities                         | 1                    | 1                | 2          |
| Offices                                     |                      | 0                | <b>0</b>   |
| Other (e.g. prisons)                        | 2                    |                  | 2          |
| <b>Total</b>                                | <b>85</b>            | <b>17</b>        | <b>102</b> |

Resource: my own calculations according to 11.

While in the EU countries the order of procedure with PPP investments is strictly regulated, in Hungary all forms of cooperation in development and service activities between the State and the private sector had been exclusively regulated by § 138/A of Government Decree 6/23 217/1998. (XII. 30) on the order of operation of general government. This had set the general rules of commitment for development programmes individually approved by the Government until 2006. No PPP project specific order of procedure had been set up.

Government Decree 2098/2003 (V. 29.) on the application of fundamentally new forms of PPP set up the PPP Interministerial Committee (PPP TB) in 2003 to coordinate the implementation of projects. The PPP Interministerial Committee consisted of six members: representatives of the Ministry of Transport and Economy, Ministry of Finance, Ministry of Justice and Law Enforcement, Prime Minister’s Office, Hungarian Central Statistical Office and the National Development Agency. The authorized chairman was a competent undersecretary of the Ministry of Transport and Economy.

In early 2007, Government Decree 24/2007. (II. 28.) on certain rules of the undertaking of long-term commitments was proclaimed. The Decree had been initiated by the Ministry of Finance and supported by the PPP Committee.

The new order of procedure allowed detailed elaboration of projects only if the Government had selected them in the hierarchy and they had sufficient commitment funds.

Currently, this regulation contains the order of procedure concerning PPP projects.

New PPP projects or programmes may be undertaken by the government's consent only.

A pre-condition of government approval is that the preparatory material should contain a profound enough presentation of financial as well economic effects. Also, the project – together with other projects – should not pose too high a burden on the budget in addition to financial allocation.

The amount of financial allocation effective in the given year is always determined by budget law.

The maximum payment fund limit is 3 per cent of the total amount of the budgetary income.

The commitment limit for 2008 is HUF 200bn HUF.

The already existing commitments also go to the debit of the limit, and new commitments may only be assumed to the debit of the free fund limit. Its value is determined by the Ministry of Finance on the basis of the records of the Hungarian State Treasury.

| (million Ft)               | 2006    | 2007      | 2008      |
|----------------------------|---------|-----------|-----------|
| Long term commitment value | 5.795,4 | 148.910,6 | 157.904,8 |
| Limit volume               |         |           | 200.000,0 |
| Free funds                 |         |           | 42.095,2  |

Resource: Ministry of Finance Registry, as of January 31, 2008.

### **The PPP construction – participants and duties**

Beside the State and the private sector entrepreneurs, the two most important participants in the PPP construction, there is one more significant factor: the financial sector that is of special importance throughout the implementation of a project.

The roles of State are:

- The State as public agency recognizes the investment demand and sets up a hierarchy for the applicants;
- Determines the sort, quality and duration of service it wishes to use;
- Provides payment guarantee by way of law;
- Co-ordinates the agreement and its implementation through the Interministerial Committee.
- The private sector:

- Creates a 'project company'
  - Raises the investment capital from its own as well as outside resources;
  - Does the works;
  - Provides long-term operation of the project;
  - Guarantees high service quality.
- The financial sector (bank):
- Provides credit to the project company to complete its own funds, ensures continuous source demand and performs continuous supervision over the fulfilment of conditions the other two participants have undertaken – performance of the service and disbursement of the hire money that is payed in return.
- Depending on the proportion of duties the private investor undertakes, there are four models to use for the implementation of a PPP: (9)
- Design and building (DB);
  - Design, building and operation (DBO);
  - Design, building, operation and financing (DBFO);
  - Concession.

A joint venture by the State and the private sector is also an alternative, however, that is rare. The EU member states and Hungary prefer application of the DBFO and concession varieties. 7 contracts of this amount to over 30 Bio HUF.

According to the Interministerial Committee Registry valid on January 1, 2008, PPP projects operating in Hungary at the time were:

- Palace of Art, Budapest (OKM);
- Motorway sections 1 to 3; building stages 1 and 3 of motorway M6 (GKM);
- BVOP Prisons in Tiszalök and Szombathely;
- 39 Ministry of Education and Culture projects (10 new youth hostels, reconstruction of 13 hostels, 15 developments in research and education infrastructure);
- 7 ÖTM gymnasiums, 4 swimming pools and the Kiskunfélegyháza Sports Court.

All of these were commitment covered projects (*Resource*: 11). There is a significant divergence in the volume of projects.

Except motorway investment projects, every contract followed the DBFO model.

One of the first agreements was the Hungarian University Programme launched by the Ministry of Education and Culture. The project focused on the construction of new youth hostels, reconstruction of old ones and the development of infrastructure with 78 or 80 institutions.

The investment value is HUF 151.7bn with costs amounting to HUF 10bn annually for 20 years.

The implementation of programmes was chiefly based on the establishment of accommodation for 10,000 students as promised in the 2002 government programme. Therefore, it was a political decision.

Practical experience shows that 'investor-run' private hostels are no alternative to underlease. Without government contribution they would be a lot more expensive, as a private company has to regain the investment expenses from the fees, whereas the underlessor is not compelled to do so.

In order to shape up competitive prices, institutions (that is the State) assume some of the fees even in case of vacancy (10).

It is typical for PPP investments that the winning investor makes an operator's agreement with the institution or its single-member LTD when the investment is complete. In doing so, he actually renders the right of operation just as if the investment had been implemented out of direct government resources and not as a PPP project.

The investment value of concession motorways M5 and M6 published by the Ministry of Transport is HUF 346bn. The cost is HUF 39bn a year calculated at a 2005 reference price.

However, the way PPP is used for motorway construction in Hungary differs from Western European examples. Here, private capital does not complement government expenditures but almost fully replaces them; this is the allocation of former government expenses to the private sector (7).

The prison building programme of the Ministry of Justice and Law Enforcement in Tiszalök and Szombathely involves a HUF 14bn investment, the cost of which will be HUF 3.9bn annually for 15 years.

"Sport XXI" Facility Building Programme of the Ministry of Local Government and Regional Development aims at the construction of 60–65 classrooms and swimming pools.

The investment value of the above is HUF 23.7bn and the cost will be HUF 2.9bn annually for 15 years. High charges have caused several municipalities to give up their implementation plans.

The volume of PPP investment was in Hungary average 2005–2007 about 550 Bio HUF, 2% of GDP.

### **Morals of the implementation of PPP models in Hungary**

*Thesis 1* In Hungary, PPP investment for the public sector is an economic-financial technique which sets its aim on the reduction of general government deficit by application of this construction even to the detriment of the criteria of economy as compared to conventional implementation.

Which factors support the above statement?

Hungary has undertaken to meet the Maastricht criteria, which are stipulated in the convergence programme. Here Hungary has agreed to reduce the fixed assets accrual from 4.4 per cent of the GDP to 3.2 per cent between 2006 and 2010. This resulted in a serious reduction of direct government or local government investments (*Resource: 15*).

Chiefly for political reasons, this is the only way of improving schools and hostels on a national scale, redoing swimming pools and classrooms in minor settlements and developing roads or the culture where necessary.

Having perused quite a few agreements, it is clear that historic price often neglects the returns. The reason is it's very difficult to calculate – and the invitation to tender does not require that either. The investments have been realized in sectors with no significant income, e.g. prisons, gyms, swimming pools and motorways. For such investments, the majority of income is granted by the government as availability fee.

Agreements normally stipulate the quality of implementation, like the standards of supply for the prisoners, the range of shops necessary for a hostel or the number of exhibitions to hold in a cultural facility. What is also regulated is the amount of reduction applied to the rent, though, in fact, this is no real penalty as it does not reach 10 per cent of the rent amount.

Like everywhere else in the world, tender evaluation in Hungary is preceded by a negotiated public procurement procedure which involves cost benefit analysis and current value calculation. However, these are not suitable for comparison of actual historic or market prices.

In addition, before a PPP investment is launched, a current value calculation is done to decide whether it is feasible for the government to take up credit and start an investment with all its risks and nuisances including excess investment costs, overburden deriving from operation and demand for modernization or to apply the PPP construction with a fixed, annual service charge.

However, this calculation is only based on presumptions. The possible risk is evaluated in percentage and regarded as savings, so compensating for investment and additional costs. Moreover, current value calculation often results in an unintelligible negative figure, as earnings are normally less than expenditures.

Construction companies bidding for a tender can normally take more expensive credits than a government could take or finance from municipal bonds. Therefore recompense fees are usually higher than planned, deterring several municipalities from implementing gym or swimming pool building projects. (121 projects were planned but existing number of projects is only 37, *Resource 11*).

A great example was the Budapest governmental district project in 2007/2008, which was not only significantly expensive but it also ignored many regulations of the competent authorities as well as the city-planning considerations.

I expect a similar outcome with FEREX, (Ferihegy Railway) and Electronic Toll System (ED). The rate of return is uncertain and the investor is not likely to assume demand risk.

Thesis 2: An EUSTAT audit regrades Hungarian PPP from private to public investment, causing PPP to become an item increasing budget deficiency.

Which factors back up the above?

Regulations and definitions relating to budget deficiency are dealt with in EU statistics registry called National System of Accounts (ESA '95 manual), which helps to identify the features that make an investment private or public. The Manual describes how to recognize transactions which by their economic content are only aimed at avoiding the Maastricht debt and deficit by offering ways of classifying these as items increasing budget deficiency and public debt.

Investments may be given clear-cut qualifications only after completion of a risk allocation examination. If the majority of risks are borne by the State, the investment cannot be considered a private one, as it must be regarded financial leasing.

The examination focuses on the following:

- Who takes the risks or the majority of them, respectively? Are there any building risks? Who is responsible for maintenance and provision of the equipment?
- Who will repay the debt if the contract period expires prematurely?
- Who defines the type of asset?
- Who takes demand risk?
- Will the contractor use the asset to gain profit from third parties?
- Will the government pay less in case of poor service quality?
- Will the government pay more if company costs arise?
- Who takes residual value risk?

Having performed a risk allocation examination on implemented PPP investments from the above viewpoint it can be stated that, with hardly any exceptions, the majority of risks were taken by the buyer. Following the advertisement of a project, some contracts had to be modified repeatedly to adapt to problems arisen during construction works. See *The Palace of Art* or M5 motorway.

In case of a contract terminated before deadline it is always the buyer that has to repay the debt. And what is more, most contracts stipulate a considerable amount of penalty as well. The investor does not take such risks.

The type of asset is defined during the public procurement procedure as are the ground-space, function, equipment, etc. Therefore it is also the buyer that has to take the risk deriving from all that.

In most cases, the investor doesn't have to take demand risk of more than 50 per cent of the income.

Therefore, if a university or college, whose lecture rooms and laboratories have been built or redone, becomes unattended after 10 years, it will still have to pay the rent or recompense fee to the budget. Such is the case with sport courts, swimming pools and prisons.

For motorways, the investor receives most of his income from the sale of stickers, but contracts stipulate a significant sum as availability fee which is paid out even if the motorway is not or hardly ever used.

If we examine whether investors use the assets to gain profit from third parties, we will see that they do (except prison and motorway projects). For example, redone lecture rooms at schools are let for conferences or other events, businesses in swimming pools are leased, and balls or other events may be held in the Palace of Art so as to make profit.

The answer to the question whether the government pays less if the quality of the service is below standard is usually positive. Contracts list the services the inefficiency or lack of which will lead to reduction of the recompense fee. This is checked by means of a posterior monitoring system.

Will the government pay more if the company's expenses arise?

Most contracts are adjusted annually according to the inflation rate. So if expenses grow with inflation, the buyer will compensate for them.

The recompense fee is usually set in foreign currency, so the buyer must take the exchange currency risk.

Who takes residual value risk?

For most projects, the buyer has to take this risk because the investment will not pass into his possession when the contract is terminated. He will only have right of pre-emption and buy or re-rent the asset at the effective market price.

It is generally true that EUSTAT accepts operative leasing constructions while rejects those similar to financial leasing because, for operative leasing, assets are in fact lent and the hirer receives right of usage or services with the proprietary right remaining with the lender of ownership.

Following an inspection by EUSTAT, the following items have recently been transferred to the public sector:

- a PPP motorway construction project worth HUF 100bn near Érd-Dunaújváros,
- the Palace of Art project worth HUF 32bn.

A similar result is only to be expected with other PPP investments, e.g. those of the Ministry of Education and Culture, the Ministry of Justice and Law Enforcement, and of the Ministry of Local Government and Regional Development. These projects are likely to end up the same way as the ones above. The reason is that, according to the allocation examination in my study, most of the risks in Hungarian PPP contracts are taken by the buyer, which excludes these contracts from the private sector category and, as such, they increase fiscal deficit. If EUSTAT reclassified the new investments in motorways M5 and M6, this alone would increase public debt by HUF 350bn – almost 4 per cent of the total deficit.

Cases when a PPP investment can definitely not be considered a private sector investment:

1. If the PPP contractor is a contractor or government agency with no independent power of decision, then the performance of services must be accounted for governmental emission and the assets must be dealt with as government assets.

2. If a PPP company is, either directly or indirectly, in full possession of the State or if it operates in a joint ownership of which the government takes control and investors exercise their rights as if they were shareholders, the project may not be regarded private.

3. If the government ensures the majority of resources necessary for creation and renewal of assets, the transaction must be accounted for financial leasing and considered public investment.

4. If the government undertakes contractually to cover the costs of maintenance, re-furbishment or modernization of assets in addition to regularly paying for every item of service it is receiving, then the project must be reclassified at the moment the government share becomes prevalent.

5. If the government performs payments which are independent from the actual application of assets, from the service provided to the end user or from the quality thereof, and such payments make up the majority of income deriving from a PPP contract, then the transaction may not be regarded private.

6. If the sum the government has paid covers most of a PPP contractor's costs, and some of these payments cover some of his fixed costs as well, then the transaction may not be regarded private.

7. If a PPP contractor receives payment not from the government but from users directly utilizing the assets or services, and the government guarantees a minimum earning or income to the private entrepreneur, then the transaction may not be regarded private.

8. If the government undertakes to purchase the asset even if the asset does not meet the requirements or its useful life does not extend until at least 5 years after termination of the contract, or the transaction price set either before or

after is not based on market principles, then the transaction may not be regarded private.

9. If the government does not participate in the original funding but a contract compels it to compensate the partner or a third party for certain types of loss or profit shrinkage, then the asset must be regarded government asset. The calculation must be done at residual value from the moment the government's share becomes prevalent in the total cost.

10. If a government agency vouches for the contractor's PPP investment debt by virtue of express guarantee, the PPP assets enabling implementation of the contract must be removed to the government balance when the accumulated sum of factually demanded guarantees seriously exceeds the partner's debt deriving from PPP investment.

According to the above, the following aspects are to be considered in classifying a PPP project as private investment before launching it:

- When selecting contractors, preference should be given to “real PPP contractors” and not to state-owned firms or construction companies that only wish to utilize their capacity. “Real contractors” are investors who really can implement and operate a project effectively;
- The State's share in investment financing should be kept as low as possible. Also, the State should refrain from undertaking to finance renovation or maintenance operations later on;
- The State should not assume the risk of investment financing. It should not promise to stand as a guarantor in the case of financial difficulties during the investment period;
- The State should not take on investment related risks. It should not promise to stand as a guarantor in the case of an unexpected rise of investment costs;
- Service fees should not be fixed in advance. It is advisable to adjust the fee to the quantity and quality of service to devolve demand risk to the contractor;
- In the case of premature termination – rescission – of a contract, compensation should be governed by market rules, e.g. unrealized profits should be compensated for;
- Following contract termination, the State may, but does not have to, purchase the asset. However it *is* necessary to enforce market principles. This means residual value risk should be taken by the contractor. The fixed price should not be higher than the asset's expected, economic residual value;
- PPPs where the private entrepreneur keeps financial contact with the user during the service provision period (e.g. construction (concession) of free motorways) are clearly private sector investments. But if the State or any of its agencies keep financial contact with the private entrepreneur (e.g. construction of free motorways) the investment is considered a concealed public investment financed through implicit borrowing.

Thesis 3: The risks and disadvantages of PPP investments implemented in Hungary outnumber their possible advantages

This thesis is supported by the following arguments:

- As a result of long-term financial load, the public sector's operating margin has been greatly reduced in the long run. Budget expenditures have been cut down on and their structure has been reformed, which has led to considerable disadvantage. (*Resource: 5, 9*);
- The long term makes it difficult to evaluate possible risks and their amount in advance. A typical example of this is the School Renovation Programme of the Ministry of Education, which has already raised the question if the State should take on so much liability or provide payment guarantee in spite of all the negative demographic tendencies. Following the utilization of available funds, either the budget ceiling should be increased or the already planned projects should be quitted;
- Experience shows that the primary requirement for the PPP construction has not been met: implementation has not become more economical than with conventional methods. In some cases, direct investment or leasing would be a better value even if loaded with interest;
- The examinations I have performed go to show that building costs are no lower than with conventional methods, because there is extremely limited competition involved in PPP procedures. Historic costs are much higher than expected because of factors like inconsequent reference regulations, a negotiated public procurement procedure, higher financial costs and extra taxes imposed on private sector investment (e.g. property tax);
- Certain political leaders urging inspection of PPP constructions claim that some of the contracts violated the Budget Law, and so the State should turn to court to nullify them. In other words, the way this construction is being used in Hungary is adverse to international practice. (1)

Thesis 4: Opposite to other EU-15 countries, in Hungary the tools of PPP investment are not clearly defined and regulated:

This thesis is supported by:

1. Problems with the order of procedure effective until 2006: (*Resource 12*)
  - Projects were not submitted for preliminary selection. There was no experience on which to decide if a project was suitable for the PPP structure or if there were enough funds and intention for its implementation. Whoever applied first could join the programme;
  - The Interministerial Committee was presented projects of very different qualities as to both content and standard. Some plans were carefully elaborated and supported with economic figures, while others were miscalculated;

- The Interministerial Committee either received no feedback on the contracting period or they were expected to give opinions on contracts or bids;
- Neither the Ministries nor the Committee kept interoperable record of the projects and forms relating to long-term government commitment;
- The Committee was unable to gain information, interrupt or feed back later in the course of project implementation, e.g. when an investment period ended. The inspection of contracts was also impossible to carry out;
- As the order of procedure was not uniform, the Committee had no insight into several projects (e.g. OKM university projects);
- It was not compulsory to ask for the Committee’s opinion before a project was submitted to the government. This resulted in the Committee hearing of a project too late or having to fulfil its counselling duties afterwards.

2. Most off PPP investments are made in the renovation and refurbishment of existing buildings, the following problems remain unsolved:

- How much is a used property worth after it is invested in? How is it introduced in the investor’s books and what value will it represent when remaining with the consignor? Will it be scrapped like old asset or continue depreciating?
- What happens to the renovated original holding when the contract is terminated? If the buyer does not purchase the part of investment that corresponds with the renovation, how can the investor take away or utilize it?
- May the investor capitalize the investment onto the existing building or not? What are his intentions when depreciating it as rented property or simply as realty? After all, according to the contract, he is letting the service provided.
- Must the investor pay tax on the property? Although the asset deriving from the investment is for public use, it is not a public property and, therefore, it is taxable.
- Must the investor pay duty on the site he is using and the building he is renovating? Must he indicate these in the balance sheet as non-material rights and if so, at what value?

The purpose of my essay is not to answer these questions or come up with suggestions for solution. They merely serve as a possible way to go with my next study.

In pre-enlargement European Union countries, the State has been taking less and less share in direct government investments since the 1970s.

While in the 1970s, the 15 EU member states spent 4.5 per cent of the GDP on direct investment, this figure had decreased to 2 to 2.5 per cent by the early 2000s.

At the same time, this figure was higher – 4 to 4.5 per cent – for countries that joined later. Between 2003 and 2004 a new and nearly unknown construction turned up in the financing of state investments in Hungary: the PPP construction.

It served for implementation of projects planned and decided on by the political leadership in a way that fiscal deficit would not increase in the meantime.

With a PPP investment, the public sector involves the private sector in performance of a public duty or in the creation, maintenance or operation of institutions.

In using the PPP construction, the private sector makes an investment and provides a service of some kind to the State, assumes the duties of the latter and receives a fee for this service.

At first, the PPP construction was selected because it was considered to ensure more economical implementation with a lot less risk as compared to conventional solutions, such as direct government investment or leasing. By application of PPP, the State orders a long-term service (typically ranging from 20 to 30 years) from the private sector.

Until 2006, PPP investments which stand for a cooperation in development or service activities were governed only by general regulations of commitment programmes individually approved by the government. These were coordinated by the Interministerial Committee until the release of Government Decree 24/2007. (II. 28.) on long-term commitment rules initiated by the Ministry of Finance and supported by the PPP Committee. The amount of budget line effective in the given fiscal year is always determined by the Budget Law. The maximum budget line amount is 3 per cent of the budgetary income.

Beside the state and the private sector entrepreneur, the two most important participants in the PPP construction, there is one more significant factor: the financial sector that is of special importance throughout the implementation of a project.

The PPP construction has not only good points but also considerable disadvantages. For instance, because of the long-term financial load, the public sector's operating margin is greatly reduced in the long run and budget expenditures are cut down on. Experience shows that the primary requirement for the PPP construction is not met: implementation is no more economical than with conventional methods. In some cases, it is cheaper to apply direct investment or leasing even if these are loaded with interest.

On the other hand, EUSTAT will refuse to classify a project as private investment if improper risk-sharing or a basically financial leasing is involved. In such cases, the investment will increase the fiscal deficit.

Despite its drawbacks, Hungary, like many other EU countries, has been applying the PPP model to find economic and financial techniques by which to keep down public debt and deficit when making an investment. This would pro-

mote fulfilment of the Maastricht criteria and of those in the Convergence Programme even if efficiency criteria are affected or the disadvantages outnumber the advantages significantly.

For private construction companies, PPP is but a means to create demand for their capacities with the assistance of a bank or leasing firm.

Regulations and definitions relating to budget deficiency are dealt with in EU statistics registry called National System of Accounts (ESA '95 manual), which helps to identify the features that make an investment private or governmental. The Manual describes how to recognize transactions which from their economic content are only aimed at avoiding the Maastricht debt and deficit by offering ways of classifying it as items increasing budget deficiency and public debt. It is generally true that EUSTAT accepts only operative leasing constructions while rejects ones similar to financial leasing.

If a risk allocation examination reveals that the majority of risks are assumed by the government, the investment may not be accounted for a private investment but considered financial leasing.

This study summarizes the criteria applied during the inspection and classification processes of PPP investments.

Based on the results of a recent EUSTAT's inspection, we can expect a similar result with other PPP investments, e.g. those of the Ministry of Education and Culture, the Ministry of Justice and Law Enforcement, and of the Ministry of Local Government and Regional Development. These projects are likely to end up the same way as the ones above because PPP contracts in Hungary disregard the 7 + 3 rule and so they further increase the fiscal deficit.

My research of PPP investment result in the premise, that the risks and disadvantages of PPP investments implemented in Hungary outnumber their possible advantages, on the other hand, opposite to other EU countries, in Hungary the tools of PPP investment are not clearly defined and regulated.

#### **Abstract**

In pre-enlargement European Union countries, the State has been taking less and less share in direct government investments since the 1970s. While in the 1970s, the 15 EU member states spent 4.5 per cent of the GDP on direct investment, this figure had decreased to 2 to 2.5 per cent by the early 2000s. At the same time, this figure was higher – 4 to 4.5 per cent – for countries that joined later. Between 2003 and 2004, a new and nearly unknown construction turned up in the financing of state investments in Hungary: the PPP construction. It served for implementation of projects planned and decided on by the political leadership in a way that fiscal deficit would not increase in the meantime.

With a PPP investment, the public sector involves the private sector in performance of a public duty or in the creation, maintenance or operation of institutions.

In using the PPP construction, the private sector makes an investment and provides a service of some kind to the State, assumes the duties of the latter and receives a fee for this service.

At first, the PPP construction was selected because it was considered to ensure more economical implementation with a lot less risk as compared to conventional solutions, such as direct government investment or leasing. By application of PPP the State orders a long-term service (typically ranging from 20 to 30 years) from the private sector.

Until 2006, PPP investments which stand for a cooperation in development or service activities were governed only by general regulations of commitment programmes individually approved by the government. These were coordinated by the Interministerial Committee until the release of Government Decree 24/2007. (II. 28.) on long-term commitment rules initiated by the Ministry of Finance and supported by the PPP Committee. The amount of budget line effective in the given fiscal year is always determined by the Budget Law. The maximum budget line amount is 3 per cent of the budgetary income.

Beside the state and the private sector entrepreneur, the two most important participants in the PPP construction, there is one more significant factor: the financial sector that is of special importance throughout the implementation of a project.

The PPP construction has not only good points but also considerable disadvantages. For instance, because of the long-term financial load, the public sector's operating margin is greatly reduced in the long run and budget expenditures are cut down on. Experience shows that the primary requirement for the PPP construction is not met: implementation is no more economical than with conventional methods. In some cases, it is cheaper to apply direct investment or leasing even if these are loaded with interest. On the other hand, EUSTAT will refuse to classify a project as private investment if improper risk-sharing or a basically financial leasing is involved. In such cases, the investment will increase the fiscal deficit. Despite its drawbacks, Hungary, like many other EU countries, has been applying the PPP model to find economic and financial techniques by which to keep down public debt and deficit when making an investment. This would promote fulfilment of the Maastricht criteria and of those in the Convergence Programme even if efficiency criteria are affected or the disadvantages outnumber the advantages significantly.

For private construction companies, PPP is but a means to create demand for their capacities with the assistance of a bank or leasing firm.

Regulations and definitions relating to budget deficiency are dealt with in EU statistics registry called National System of Accounts (ESA '95 manual), which helps to identify the features that make an investment private or governmental. The Manual describes how to recognize transactions which from their economic content are only aimed at avoiding the Maastricht debt and deficit by offering ways of classifying it as items increasing budget deficiency and public debt. It is generally true that EUSTAT accepts only operative leasing constructions while rejects ones similar to financial leasing. If a risk allocation examination reveals that the majority of risks are assumed by the government, the investment may not be accounted for a private investment but considered financial leasing.

This study summarizes the criteria applied during the inspection and classification processes of PPP investments.

Based on the results of a recent EUSTAT's inspection, we can expect a similar result with other PPP investments, e.g. those of the Ministry of Education and Culture, the Ministry of Justice and Law Enforcement, and of the Ministry of Local Government and Regional Development. These projects are likely to end up the same way as the ones above because PPP contracts in Hungary disregard the 7 + 3 rule and so they further increase the fiscal deficit. My research of PPP investment result in the assumption, that the risks and disadvantages of PPP investments implemented in Hungary outnumber their possible advantages, on the other hand opposite to other EU countries, in Hungary the tools of PPP investment are not clearly defined and regulated.

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ÁGNES BILANICS

## A study of management tasks and functions in agroeconomic organisations

Keywords: management tasks, agroeconomic organisations, proprietors, interview

Today's managers have to face great challenges under continuously changing circumstances. They have to manage their corporation successfully, while satisfying many roles and expectations that sometimes cannot be fulfilled by one single person. This work is a difficult and complex activity. The question arises how these managers' roles can be determined and differentiated. Management science answers this question.

Management is an activity that is often insensibly present in the social and economic processes of human work and daily routines. However, the issues of managing and organising the human work and productive activity did not use to be separated from the professional knowledge of the given activity for thousands of years. By today, management is one of the most dynamically developing disciplines. It has rich and diverse literature; numerous theories, management methods, procedures and models have been developed and have become known and recognised.

Researchers and scholars, often arriving from other areas such as psychology, sociology or engineering, extend the borders of management science, and enrich its topics and knowledge. Today the discipline of management deals with

lots of fields that earlier were not thought to be related to management. From human factors to the issues of behaviour, from motivation to conflict management, through information management to decision, quality management, organisation and logistics are individual topics of management. Human resources management, career management, control, logistic management and special themes like delegating, authorisation, authority are all studied and to a certain extent explored areas of management.

Nevertheless, new and new areas have been integrated and processed into management science. The management boom indicates that the role of management has become determinant in all walks of life. After the findings of production organisation, we can already talk about the management of the servicing, educational and health organisations today. Another aspect of the expansion is that after the globalised, large multinational organisations, the management issues of medium- and small-sized organisations as well as the research of the answers arise more and more strongly.

“Management tasks undergo a continuous change” (BERDE, 2000). The judgement and evaluation of the tasks differs from age by age and from society to society, which results in more and more differentiated management. This tendency, the permanently changing political and economic circumstances can be observed in our country, too.

In a management scientific aspect, a specific situation has evolved owing to the economic and social changes of the past years in Hungary. The size, structure, entrepreneurial form and volume of producing organisations have changed. The earlier dominance of state property has been replaced by private property, and market competition has strengthened. Production structures have become simpler, management levels have decreased, and the proprietary functions have become stronger.

Studying this process from the perspective of management, we can see a particular situation. The majority of new proprietors are personally involved in the management of their own enterprises, organisations, so they fulfil the management tasks from a proprietary or proprietor-employee position. The various organisations and their staff, regardless of their size, activity or volume, always need a manager who makes sure that the problems are solved, and the conditions for effective and competitive work are established. Therefore, it is essential for them to acquire the practice of skills and methods. The manager of our age has to fulfil numerous expectations and meet challenges in the dynamic environment. The basic issues of management science include the determination of the scope of managerial duties. Lots of systems and classifications are accepted. Generally, scholars focus on a certain activity area of management and group the managerial tasks among it.

When elaborating my research program and studying the topics, I have assumed the following based on my readings, earlier technical experience and research findings:

- The functional research method built on the study of management tasks is in accordance with the character of the agro-economic process and can be suitable for revealing the management and management features of the organisations within the sector;

- The empirical cognition and researching of corporate processes may produce results that enable managers to further develop their management methods and procedures;

- The corporate structure, composition and colourfulness of agro-economy, the process, determinateness and environmental affectedness of production processes raises special management issues not present in other sectors;

- The rank of management tasks and the related managerial preferences are affected by several organisational (size, form of operation, scope of activity) and personal factors (school education, position, age);

- The interview questions on the judgement of the role of management tasks, focusing on the past, present and future makes the studying of the transformation and changes of management functions possible with a dynamic and process-oriented approach;

- The value judgement of interviewees is theoretical; the social environment, expectations and norms are fundamentally determinant. I have assumed that by qualifying the managerial tasks and studying the frequency of applications, we can detect such differentiations and contradictions that may promote the clear understanding and better knowledge of the management tasks.

Studying the past of managing and organising domestic agricultural production and farming more thoroughly, we can observe that first the management of large estates and then of large plants was a determinant. This means that the approach of agricultural management was traditionally “large-scale” until the transformation of regime in 1989/90. Following this, a new organisational structure, with the dominance of micro, small and medium-sized estates, evolved in the Hungarian agriculture. Studying this process from the management size shows us a particular situation.

A considerable part of new proprietors personally takes part in the management of their enterprises and organisations, too, so they fulfil the management tasks from proprietary or proprietor-employee positions. In the light of this, the question arises what management and organisation tasks must be solved in these organisations, whether the new proprietors are well-prepared for these tasks and how their existing management and organisation knowledge can be utilised.

In my study I have aimed to answer the question what tasks the managers under survey consider important, what factors influence their judgement, how the basic managerial tasks can be grouped and systemised.

– My purpose has been to present such changes in their process that have appeared in management work or changed in the judgement of tasks in the past decades. Accordingly, I have applied two study procedures in my work: I named the functional approach “task studies” and the process-oriented approach “change study of management tasks”;

– My task has also involved the revealing of correlations, based on which the theory and practice can be fit together, and the drawing of conclusions that can help us improve the efficiency of managerial work;

– I have assumed that certain differences arise in the managerial practice and thinking of the respondents, so I have assessed my databases according to several study aspects;

– One of the tasks of the study is to synthesise the management theories and tendencies through a historical presentation of the evolvement and development of management science;

– Furthermore, I have aimed to process and introduce the management relevance present in Hungarian management science and Hungarian agricultural literature until today. In my empirical researches, I have searched an answer to the following questions:

– According to managers, to what extent has the judgement of management tasks changed in the past 20 years?

– What differences can be observed in the judgement of management tasks in practice based on the opinion of different generations?

– Is there a difference between the value scale on management tasks and the frequency of managerial actions and applications?

– To what extent do management tasks differentiate based on the extent of corporate loyalty?

– What is the relation of the managers of organisations to management, what management tasks are considered as determinant for survival?

– How educated and qualified are the managers under survey?

– How do the respondents forecast the future of the tasks of corporate management based on their current experience?

– The final purpose of my study is to make statements built on the survey findings that may promote the more thorough learning of managerial tasks and the disclosing of change tendencies. My task has also involved the revealing of questions and relations based on which theory and practice can be harmonised better, and the drawing of conclusions, which can promote the efficiency of managerial work.

In case of both studies, I have built my research work on questionnaire interviews.

The questionnaires are guided and closed, as I provided the possible answers in advance for each question under survey. The advantage of closed interviews is that they can be processed easily and the generalisation of the received findings is simpler thanks to the uniformity of the questionnaires. In the present case the interviewees had to qualify the given factors on a scale ranging from 1 to 5. The response scores of the questionnaire are assessed with a nominal scale.

To **investigate the management tasks**, I have compiled an individual questionnaire consisting of three main parts: the data of the organisation under survey, characteristics of the respondent, and the interview questions with the factors to be qualified and specified by me in advance.

I have collected the following data about the organisations under survey: operating form of organisation (public limited company, co-operative, limited liability company, deposit company, public administrative institution); scope of activity of the organisation, volume of activity, number of staff. As for the personal features of respondents, I have asked the interviewees' age, qualification, professional field and position. This information has also enabled me to conduct detailed analyses by breaking down the studies of the entire sample.

To perform the surveys, I have established variables classified on the basis of various aspects by applying the features of the organisations first and then of each respondent. In the survey interview, I have analysed 10 management tasks expressed in 14 questions. I have determined 8–10 factors to be qualified for each question, so the total factors studied (management tasks) amount to 126. The research includes the managerial judgement and preference changes of the following management tasks:

- decision tasks;
- control;
- instruction, disposal;
- planning tasks;
- organisation;
- motivation;
- in-company;
- out-of-company information collection;
- conflict management;
- communication;
- personnel tasks;
- quality management.

By studying these issues, I have aimed to find out how the managers under survey qualify each management task on a scale from 1 to 5 and to what extent they think the realisation of the tasks is affected by belonging to the different groups. The sample underlying my research is dominantly based on the opinion

of male managers who work for small- and medium-sized organisations (limited liability companies and joint-stock company) pursuing agricultural activity, are between the age of 30 and 49 and have a college or university degree.

Besides studying the task of functional approach, I have conducted a separate research **to examine the changes in management tasks**. After elaborating and evaluating the functional researches, I have become convinced that my statements are static for a given time; they refer to the time of study.

When selecting my topic, I have set the aim to study the changes in management tasks. As I cannot draw conclusions on this from the functional task study, I have decided to initiate a new research based on a process-oriented questionnaire. With these studies, I would like to elaborate a detailed, complex picture of the changes in managerial tasks. In my opinion, the information of the questionnaires applied by me offer an opportunity to reveal the value judgement and attitude of various managerial groups more sharply, define their perspectives and specify the differences of managerial tasks in practice. The research structure is illustrated in Table 1.

Table 1: Structure of the research entitled “A study of changes in management tasks”

|   |  |
|---|--|
| Tasks representing proprietary interests                | <ul style="list-style-type: none"> <li>– proprietary managerial tasks</li> <li>– obtaining and providing information</li> <li>– keeping and building contacts</li> </ul> |
| The managerial tasks of passing and enforcing decisions | <ul style="list-style-type: none"> <li>– passing decisions</li> <li>– disposal, instruction, regulation</li> </ul>   |
| Organisational and control tasks                        | <ul style="list-style-type: none"> <li>– control, measurement of performance</li> <li>– organisation</li> </ul>  |
| Management tasks of influencing                         | <ul style="list-style-type: none"> <li>– motivating</li> <li>– Human Resource Management</li> <li>– Conflict management, disorder relief</li> </ul>                      |
| Planning and strategy creation                          | <ul style="list-style-type: none"> <li>– Planning, strategy creation</li> </ul>  |

Source: my own research.

I consider one of the main results of my research that, **starting from the thinking of the managers of organisations operating in Hungary**, I made statements regarding the tasks related to the management of agro-economic organisations based on the identification of the respondents’ individual subjectums, perception and conviction, value judgement. I summarise the new and novel findings of my study as follows:

– Based on my research, I have observed two sharp changes in managerial values. On the one hand, **management attitude has obviously been upvalued among the managers**. This tendency is expected to remain determinant in their values. On the other hand, **the shift in the cornerstone of the judgement of managerial tasks** is also a decisive change;

– The detailed findings of the change research show that **the effect of proprietary interests in organisational management and the presence of proprietary interests in the management attitude have become stronger**. An important aspect is that the representation of proprietary interest as approach is a significant value even for managers who are not proprietors of the organisation directed by them;

– It can be concluded that **the picture of managerial values is not always in accordance with managerial action**, as in many cases the frequency of applying the least important tasks is more regular at the level of daily work performance. The frequency of applying really important tasks is often ad hoc. **This tendency can clearly be observed among the employee managers**;

– **The sharp difference between proprietor managers and employee managers in most cases lies not in the value judgement but the frequency of applying the tasks**;

– Based on my researches, I have drawn the conclusion that **during the work of proprietor managers, the complexity and joint application of management tasks is far more typical than in the case of employee managers. The managerial tasks exercised by the managers determine and clearly demarcate the competences within the organisation**.

With my study, I have managed to come round the main aspects of the research according to my intentions. Hopefully, this study will promote the creation of a comprehensive view on the world of management. However, it does not mean that I have dealt with all aspects of management in their entirety.

Today management covers so many areas that earlier were not thought to be discussable or studiable in a management context. From human factors to behaviour, from motivation to conflict management, from contact-building to decisions, through the representation of proprietary interests, the information and quality management, organization – these are all individual fields of the management. Beyond these general management tasks, in agriculture special management problems arise, too, which require special practice and experience for the successful management. Managers need such knowledge that, accompanied by professional experience and meeting the future challenges, may be suitable for the effective management of economies and business administration.

### Abstract

Today management covers many areas that earlier were not thought to be discussable or studiable in a management context. From human factors to behaviour, from motivation to conflict management, from contact-building to decisions, through the representation of proprietary interests, the information and quality management, organization – these are all individual fields of the management. Beyond these general management tasks, in agriculture special management problems arise, too, which require special practice and experience for the successful management. Managers need such knowledge that, accompanied by professional experience and meeting the future challenges, may be suitable for the effective management of economies and business administration.

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MIKLÓS GALÓ, PÁSZTOR SZABOLCS

## The effect of regional differentiation on the application of relationship methods

Keywords: regional differentiation, the matrix of the linear two-variable coefficients of correlation.

### **Theoretical, methodological approaches**

Economic analyses underlying leadership decisions favour the application of the methodology of the inductive statistics. Out of these the more wide-spread are the two or more variable correlation and regression analyses unveiling causal relations of probability relations because they are spectacular and really help the decision makers with the decision of the possible alternatives, on the other hand, they give initial information to the application of multiple methods (principal component, cluster, factor analysis etc.) for example correlation matrix. While in case of natural sciences the base data of analyses are provided by controlled experiments, the data for analyses in case of social and economic fields are collected by using different observation methods. With the spread of globalisation we can make sure of that human activities and their results are very region dependent. This dependency unveils multiple differences of different region categories. The processes when differences are arisen are called differentiation by the bibliography and evolved status developed by its result is called degree of differentiation which is static albeit we

can find terminological descriptions and refinements in certain studies for example Nemes Nagy (2005). As rural development has been in the centre of interest, we can hear a lot about the above mentioned processes and phenomena. Especially the differences in the development of regions and counties are in the centre of interest and this is justifiable because they can form wide-range social tensions. The scientific research has been dealing with analyses on different levels. We have to mention the work of Barro – Sala – Martin (1991) and Nemes Nagy (1987, 1999) not to mention the comparison of countries or group of countries, the theory of which stems from Williams (1965). The methodology of dynamic analyses retrospectively goes back to decades. From the second half of the '70s (for example, Barta 1977), the unfolding trend became more and more dominant. Agócs – Tábi (1982), Nemes Nagy (1984) have not lost their popularity so far. The previous papers have a special character namely that they analyse the inequalities of more overall regions and refer to small regions on the basis of empirical experience. We take into consideration the small regions for the first years of the new millennium, for example Lócsei (2002), Kiss – Lócsei (2005) and the need to analyse regional articulation. The first notable results were published by Faluvégi (2000, 2004, 2005) who reports the complex development standard of small regions year by year. The importance of small regions' level is founded by a number of attributes and the reasoning of Pap (2004) convinces us. Studying the tremendous bibliography, when we recognize the processes we have to take into consideration that the exhibition of the useful information has a methodological aspect. The international bibliography indicates this problem with special emphasis. The exhibition of the role of regionality in the degree of differentiation is a core field of analysis and the possibility to use it in a quantitative way. A multiple summary is given by Abreau et al. (2005). During his analysis, he uses such a multiple regression analysis where the factor variables are mainly regional parameters. Referring to this, Nemes Nagy (2007) recognizes a new regression philosophy which outlines the algorithm of application. Dusek (2006) reports about the methodological problems of the application in his study. He criticizes about the application of statistical methods in case of regional application and he opposes to use the regional sequences as a sample and evaluate them in an analogous way. He counts those disturbing factors which harden the comparability of small regions. He mentions the difference in size and the weighting problem of specific indicators. As for the latter, others also report it, for example Kovácsicsné (2006), and they give solution recommendations. The application of Hoover-index and the logarithmic standard deviation is widely spread in the national and in the international bibliography which ease the methodological anomalies. Inequality analyses are performed on the basis of the latter by Németh – Kiss (2007), later they sought regression relations between per capita income and income inequality of counties. Generalized consequence of their analysis is that Williamson model can be used in case of smaller regions rather than in respect to national territory.

Every methodological analysis contributes to the theoretical foundation of examination problems but our work has not been done. In our interpretation there are the rural inequalities, so the analysis of differentiation means the exhibition of static situation. If we for example wanted to analyse the differentiation status of county's small regions, we would face the analysis problem of a heterogeneous population as far as statistical aspect is concerned. The core methods of differentiation lead to the measure of deviation and there are special deviation attributes of heterogeneous populations. If we take into consideration the standard deviation (more specifically the coefficient of variation) as a core measure of differentiation, then a more overall county level or small regional measures of deviation are not enough. The latter is the case because based on our general statistical knowledge we have to follow the basic model of analyses of variance (see: Köves – Párniczki 1975, pp. 312–316) and we calculate within (within small regions) and between (between small regions) standard deviation.

The additive relation between the variances (between and within variable equals to total variance) are to be taken into consideration in case of regression analysis since these attributes of relationship test (parameters of coefficients) are based on the analysis of standard deviation. Supposing linear two-variable probability relations we have to define four regression function on different levels and coefficient of correlation namely on the following levels:

- By small regions one after the other;
- Within small regions (so called within);
- Between small regions (so called between) and
- On county level (so called total or general).

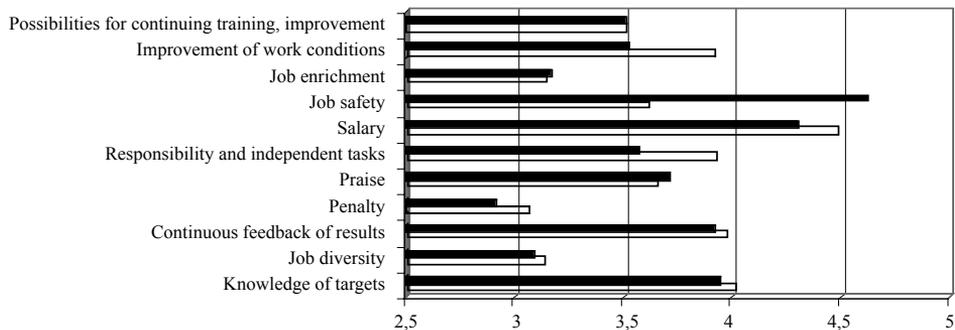
The differentiation within small regions and between small regions decides about the generalization of relation test attributes to the small regions. In methodological aspect we face a special problem namely we would like to analyse the relation of a factor and result variable and due to the articulation of the basic population a new non quantitative variable emerges and it has quantifiable effect on the result. These effects can be revealed by joining the correlation, regression and variance analysis namely the method of covariance analysis (*Sváb 1981*). We can decide about our regression function and coefficient of correlation as a common relationship test attribute on the base of the exact level of differentiation and we can make this judgement exact with test for homogeneity. We set aside the description of the methodology due to content reasons, instead we show a part of Szabolcs-Szatmar-Bereg county analysis.

### Analysis results

Taking into consideration the fragmentation by Szabolcs – Szatmár – Bereg county in 2006, and using the data of 229 settlements we performed comparative analyses. One of the aims of the analysis was to determine the complex size of small regions and in order to verify it thoroughly, we included more size factors in our research. On the grounds of multiple consideration we take the results of a six-factor model to demonstrate the raised problem in this paper. The discrete size factors showed extreme fluctuation on county and even on small region level. Our proportions of deviation on county level were the following (%):

|  |           |     |
|--|-----------|-----|
| – size of area                         | ( $x_1$ ) | 97  |
| – number of inhabitants                | ( $x_2$ ) | 316 |
| – active population in economic aspect | ( $x_3$ ) | 913 |
| – number of employed                   | ( $x_4$ ) | 399 |
| – number of registered enterprises     | ( $x_5$ ) | 630 |
| – taxable income                       | ( $x_6$ ) | 490 |

To determine the complex size attribute, we calculated the two-variable measure of relation of the chosen factors and we concluded them in the following correlation matrix:



The country measures show a very strong relation between the chosen factors and they proved to be significant on 5% level. Except for some cases, we got the same coefficients within small regions (weaker relation was showed in case of relation with size). This means that the six factors can be accepted as a size attribute and together they could create a reliable complex measure. On the grounds of the strong relations we can even suppose that we can determine regression functions having good attributes by pairs. The reality did not confirm it. 10 per cent error of function set did not occur so we drew the conclusion of the necessity of covariance analysis. Out of the 30 two-factor linear relations, we chose the covariance analysis of  $x_3$  and  $x_4$  at random and the results are compiled in table No 1:

Table 1: Relationship attributes of the number of employed and active population in economic aspect in Szabolcs – Szatmár – Bereg county (2006)

| Small Region                 |      |               | Regression coefficients |         | Coefficient of correlation | Error of function set |                    |
|------------------------------|------|---------------|-------------------------|---------|----------------------------|-----------------------|--------------------|
| S.                           | Code | No. of estate | b1                      | b0      |                            | Standard error        | Relative error (%) |
| 1.                           | 4501 | 19            | 0.7380                  | 32.41   | 0.9828                     | 70                    | 11.38              |
| 2.                           | 4502 | 11            | 0.7682                  | -22.57  | 0.9987                     | 29                    | 6.96               |
| 3.                           | 4503 | 49            | 0.8770                  | -54.47  | 0.9959                     | 50                    | 18.68              |
| 4.                           | 4504 | 32            | 0.8747                  | -66.87  | 0.9987                     | 72                    | 8.58               |
| 5.                           | 4505 | 26            | 0.8821                  | -140.54 | 0.9964                     | 134                   | 16.02              |
| 6.                           | 4506 | 9             | 0.8973                  | -107.29 | 0.9997                     | 114                   | 6.50               |
| 7.                           | 4507 | 20            | 0.9160                  | -107.15 | 0.9981                     | 69                    | 9.74               |
| 8.                           | 4508 | 9             | 0.9387                  | -96.62  | 0.9999                     | 53                    | 0.76               |
| 9.                           | 4509 | 10            | 0.8652                  | -18.60  | 0.9986                     | 81                    | 6.24               |
| 10.                          | 4510 | 27            | 0.8162                  | -40.74  | 0.9980                     | 40                    | 11.08              |
| 11.                          | 4511 | 17            | 0.8310                  | -16.18  | 0.9996                     | 38                    | 4.17               |
| <b>Within small regions</b>  |      | –             | 0.9327                  | -119.50 | 0.9995                     | 106                   | 11.64              |
| <b>Between small regions</b> |      | –             | 0.9360                  | -123.15 | 0.9995                     | 196                   | 21.44              |
| <b>Sum of the county</b>     |      | 229           | 0.9331                  | -119.94 | 0.9995                     | 111                   | 12.16              |

Source: The author’s own calculations.

The randomly chosen factors have a very strong correlation relation on every level. The relative error of the regression function on county level is 12.16% which does not meet the strict theoretical conditions but during the analyses we usually accept it. Testing the regression relations by small regions and county with F-test we found the deviations significant on every probability level which means that the regression function on county level cannot be accepted as a general attribute of small regions so the

$$x_4 = -119.94 + 0.9331 x_3$$

linear function cannot be used to describe the relation of the two factors. It makes the problem more complex that the regression coefficients of within small regions

and between small regions do not differ significantly but it does not have practical message because we cannot justify the similarity of regression coefficients by small regions. The errors of function sets by small regions indicate the acceptability excluding some cases so the small region can be analysed separately. Moreover the relation of average of small regions is also demonstrable because the regression coefficient between small regions differs from zero. The situation can be explained by the differentiability. The result and factor averages by small regions are different and the circumstances not only affect the factor variable and, consequently, the result variable but also affect directly the result variable which forms the regression. The  $b_0$  parameter of the functions by small regions is extremely conspicuous which indicates that the lines of the functions not the plain of the rectangular coordinate system side by side.

### **Conclusions and discussions**

When we intend to perform a comprehensive analysis of certain region unit, we have to be aware of the several methodological problems. The roots of these problems are in the degree of differentiation which, on the one hand, make the condition of comparison more difficult, on the other hand, it can disturb the emergence of mode of action of the causal relationships. In case our aim is the relationship test, we have to be aware that we analyse heterogeneous population so we follow the basic model of variance analysis in case of relationship test namely we have calculated the relationship test attributes in case of inner groups and within and between, after we can define the attributes of the more overall region. Depending on the degree of differentiation, we have to decide about our basic question whether the relationship attributes of a more overall region could be used for the inner groups or not. We can approach this question from the side of homogeneity. In case our results cannot be generalized due to high degree of differentiation, we can find out the theoretical roots of the differentiation by using statistical methods. However, the method can be used not just in case of two-variables but also when there are more variables and this boosts the reliability of the conclusions.

This study was made due to the comparative analysis of 11 small regions of Szabolcs-Szatmár-Bereg county. The results have drawn the attention to the fact that the data of the county's separated small regions are to be considered as divided populations as far as the correlation test is concerned. Beside the applied quantitative factors, the geographical arrangement as non quantitative factor also affects the results. We can assure the effect of this by using correlation test and we can decide by the differentiation of certain small regions within small regions and between small regions and decide about the application of the correlation test attributes whether to be applied in case of small regions or just to be applied separately.

### Abstract

During the comparative analyses of the statistically small regions of Szabolcs-Szatmár-Bereg county the matrix of the linear two-variable coefficients of correlation which can be used as size attribute of small regions showed strong or very strong relation in every case while the relative errors of the linear regression functions were above the acceptance limit. The analysis of the reasons of the deviation directed our attention to the theoretical questions since it raised the following doubt: Can the county-level relationship attributes be regarded as general attributes of small regions? Our analyses confined to a heterogeneous population, we realized that not only the chosen quantitative factor variable affects the result variable but the regional arrangement as a not quantitative factor variable as well, so the regression relation can be analysed by using the covariance analysis. The degree of differentiation by small region, within small regions, and between small regions determines the acceptability of the function describing the county level as attribute of small regions or they are to be analysed separately. The bibliography of regional, quantitative analyses reports several theoretical anomalies. Including them we are seeking the answer to our analysis problems.

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MIKLÓS GALÓ

## Analysis of direct and indirect effects in the multiplical stochastic relationship

Keywords: stochastic relation, analysis of factor effects, complex effect dissolution, rural field of study

### **Introduction**

The economic dissertations or studies made by scientific research very often apply the method of relationships. This is particularly true when we are counterfeiting some results as a combination of more linear effect factors. We would like to get appropriate information about the result and the relationship of the effecting factors for the decision making process. We can often experience that when we have just a few factor variables which show stronger or looser relationship not only to the result but also to each other so in the statistical way we can meet the case of multicollinearity. Practical experience justifies that the multicollinearity has stochastic character and the relationships between the factors do not reach the value of the multiplical correlation and the results in the relationship test could be used with very good efficiency. At the same time, we have to be thoughtful to the fact that the separation of the factor effects is not always univocal. We could realise this when we collate the values of the same factor's total and partial coefficients. Beyond the fact that they are not the same numerically, they can differ from each other in the signs

and this is due to the fact that just only one part of the factor's total have the direct effect, the other have indirect and common effect. Unfortunately the most assays do not reach the level of dissolving the factor effects and it is true that in this field our education has lots of lags.

Drawing the attention to these lags in our study we deal with the methodical description of the dissolving process of the factor effects and using a data sample from our sociological survey we demonstrate the logical order and the result of the practical adaptation.

### **The method of dissolving factor effects**

#### **History**

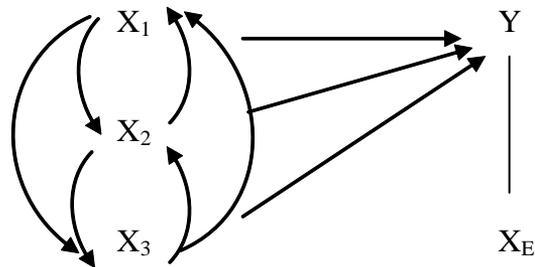
In the bibliography – placing emphasis on the theory and the practice – we can hardly meet the the dissolving method of the factor effects. This means the core of the relationship examination and it is also the result of the correlation and regression test. In the multiplical determinational coefficient the weighting of the factors' role and their effects are well-known. We know how to separate its direct and indirect effects to the result. The “path analysis” became popular due to S. Wright (1921) who used it in several books dealing with biometrics for example: Sváb (1981). Thanks to this we can meet the evaluation process of the results in the natural science mainly in the fields connected to biology. In the past few years some university books dealt with this topic for example Hunyadi-Mundruczó-Vita (2001) but just to a certain extent. They focused on the linking of the different determinational coefficients (the Wenn-diagram) and also the coherence between the regressional coefficients ( the way diagram). The applied statistics book by Szűcs (2002) also mentions the existence of the path-test and it introduces its practical adaptation using a case when there are three variables. We were the initiative in the implementation of the curriculum because we mentioned the study in our college note (Galó, 1997) and later we were searching the influencing role of the partial factors in the complex indices describing the development level of the small countries (Galó – Kvancz, 2006). We utilize the econometrics handbook by Maddala G.S. (2001) to support methodically the above mentioned.

This study is striving to focus again on the method of the dissolving of the factor effects combining the correlation and the regression test. It chose a case containing four variables (three factor variables) and it considered important the tracebleness of the calculation algorithm to support the theoretical base of the described.

#### **The basic model of the method**

Proceeding from the philosophical basic truth that everything shows relationship to everything, the result (or depending: Y) variable and three factors (or independent:  $X_i$ ) variable's possible stochastic linking points can be seen in the first chart:

Chart 1: Complex effect chart containing four variables



In the chart above we can see arrows pointing from all factor variables (from the left to the right) to the result variable also marking the directs of their effect. Its values express the direct effects and they are:

- in the correlation relationships the standardised partial regressional coefficients  $(b_i)$ ;
- the partial regressional coefficients in the regressional relationships  $(b_{yi .jk})$ .

The factor variables are connected by arrows. These duplex arrows are the indicators of the interactions. Their values.

- The correlational coefficients containing two variables among the factor variables in the correlational relationships  $(r_{ij} = r_{ji})$ ;
- The regressional coefficients containing two variables among the factor variables in the regressional relationship  $(b_{ij} \neq b_{ji})$ .

The  $X_E$  variable was introduced which symbolizes the error component of the correlational and regressional relationship.

Our chart by the direct effects of the factors also marks the indirect effects originating from the own relationship of the factor variables to the result.

In the following part of the study we summarize the logic of the method capable of dissolving and measuring these effects.

#### **The method of dissolving direct and indirect effects**

We used the standardised partial regressional coefficient to dissolve the factor variables' correlational and regressional effects as a basic indicator. To determine this,

we have to know the correlational matrix ( $\mathbf{R}$ ). We dissolve this matrix using a very simple method to the matrix of the factor variables ( $\mathbf{R}_x$ ) and to the column vector of the result between the factor and factor variables ( $r_{\underline{y}}$ ).

We invert the  $\mathbf{R}_x$  matrix and we multiply the inverted matrix and the column vector and their result will be the desired column vector of the standardised partial regression coefficients:

$$\underline{R}_x^{-1} \cdot \underline{r}_{\underline{y}} = \underline{b}$$

As the scalar product of the two vectors we can calculate the determinational coefficient:

$$\underline{r}_{\underline{y}} \cdot \underline{b}' = R^2$$

Before continuing our calculations, we examine the significance of our multiplical correlational coefficient.

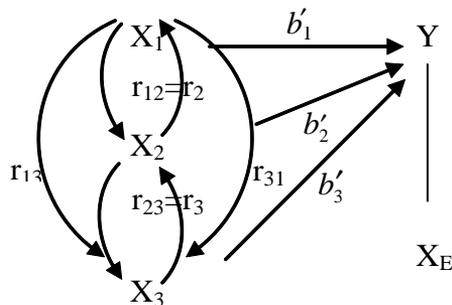
– null hypothesis:  $H_0: R=0$

– the proof-function: 
$$F = \frac{R^2(n-k-1)}{(1-R^2)k}$$

where: n: number of observations,  
 k: number of independent variables  
 degree of freedom of the counter: (k)  
 degree of freedom of the denominator: (n-k-1)

In case we reject our null hypothesis at least the level of 5%, we fill out the effect diagram according to the first chart.

Chart 2: Complex correlational effect chart



According to the chart and following the courses, the values of the total correlational and determinational coefficients and also the values of multiplical determinational coefficient can be dissolved to direct, indirect and common effects.

At this time, we just place emphasis on the dissolving process of the multiplical determinational coefficient

Table 1: The factor effects inside the multiplical determinational coefficient

| Effect | Factor   | Method of calculation | Together |
|--------|----------|-----------------------|----------|
| Direct | $X_1$    | $b_1'^2$              |          |
|        | $X_2$    | $b_2'^2$              |          |
|        | $X_3$    | $b_3'^2$              |          |
| Common | $X_1X_2$ | $2b_1'b_2'r_{12}$     |          |
|        | $X_1X_3$ | $2b_1'b_3'r_{13}$     |          |
|        | $X_2X_3$ | $2b_2'b_3'r_{23}$     |          |

Also:

$$R^2 = b_1'^2 + b_2'^2 + b_3'^2 + 2b_1'b_2'r_{12} + 2b_1'b_3'r_{13} + 2b_2'b_3'r_{23}$$

The square of the error component:

$$X_E^2 = 1 - R^2$$

Since:

$$R^2 + X_E^2 = 1 \quad \text{or rather } 100\%$$

In the following, before dissolving the regressional effects we examine that the correctness of our function set on the data whether acceptable for us or not and whether the factor variables influence the value of the depending variable in a significant way or not.

The standardised form of the regressional function:

$$\tilde{Y}' = b_1'x_1' + b_2'x_2' + b_3'x_3'$$

$$(b_0' = 0)$$

The partial regressional coefficients made by the method of destandardisation:

$$\text{and } b_{y \cdot k} = b'_i \sqrt{\frac{\sigma_y^2}{\sigma_{x_i}^2}}$$

$$b_0 = \bar{y} - b_{y_1 \cdot 2} \bar{x}_1 - b_{y_2 \cdot 3} \bar{x}_2 - b_{y_3 \cdot 2} \bar{x}_3$$

We judge the correctness of the function set on the data through the usual channel: the relative error. We check the significance of the factor variables' effect one by one to the result effect with a t-test.

Our null hypothesis:

$$H_0 : b'_i = 0$$

our proof function:

$$t_i = \frac{b'_i}{S'_{b_i}} \quad (n - k - 1) \text{ degree of freedom}$$

where:

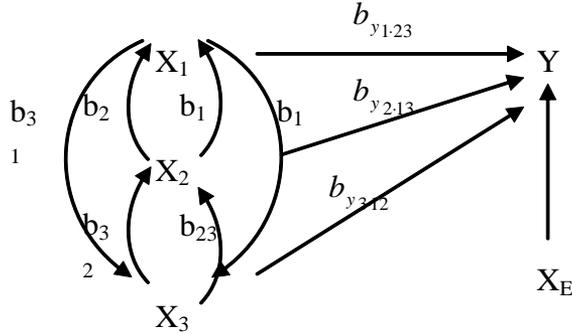
$$S'_{b_i} = S' \sqrt{q_i} \quad (q_i \text{ az } R_x^{-1} \text{ the appropriate factor})$$

and

$$S' = \sqrt{\frac{1 - R^2}{n - k - 1}}$$

In case the null hypothesis does not prove to be right at least the 5% level of significance, the influence of the factor effects is not due to the accident so the effect diagram can be filled out once again and according to this we can do the dissociation of the effect of the  $X_i$  variables into Y. The effect diagram can be seen here in chart No. 3:

Chart 3: The complex regressional effect chart



Following the chart's courses, the effects of the factor variables are summarized in the second table.

Table 2: The method of dissolving regression parameters

| Effect   | Factor | Method of calculation    | Together |
|----------|--------|--------------------------|----------|
| Direct   | $X_1$  | $b_{y1.23}$              |          |
| Indirect |        | $b_{21} \cdot b_{y2.13}$ |          |
|          |        | $b_{31} \cdot b_{y3.12}$ | $b_{y1}$ |
| Direct   | $X_2$  | $b_{y2.13}$              |          |
| Indirect |        | $b_{12} \cdot b_{y1.23}$ |          |
|          |        | $b_{32} \cdot b_{y3.12}$ | $b_{y2}$ |
| Direct   | $X_3$  | $b_{y3.12}$              |          |
| Indirect |        | $b_{13} \cdot b_{y1.23}$ |          |
|          |        | $b_{23} \cdot b_{y2.13}$ | $b_{y3}$ |

The direct effects are the values of the partial regressional coefficients. The complex effect is the same with the total regressional coefficient.

### The field of the method adaptation and its data set

In a rural small region – non representative – we chose 25 households. According to the households, they had monthly additional income. We wanted to get answer to the following question: which countable factors motivated the households in 2005 – beyond choosing the offering opportunities – to get additional income.

In our survey we considered the households additional income (EHUF/month) dependent ( also result: Y) variable and as the most frequent three influencing factors they marked as independent ( or factor:  $X_1$  ) the followings:

- $X_1$ = the regular monthly income per capita (earned income, supplies, income from lets, etc.) (EHUF/person)
- $X_2$ = the sum of the montly redemption of a household (amounts owned to credit institutions, other paying obligations) (EHUF/month)
- $X_3$ = the paying obligation of the household expenses (heating, lightning, water – sewage, etc.) (EHUF/month)

According to our hypothesis, the set of the households' additional income – including the fact that we made the survey post and we deemed the possibilities given – can be well described as the linear combination of the three factor variables. The effects of the observed factors plead different roles in the total effect and, as it can be seen from the data, the sets are not independent to each other and their effect can be dissolved into the sum of direct and indirect and common effects.

### Calculation results and evaluation

We got the following correlational matrix by determinig the standard of the result and factor variables and the factor variables ( $r_{yi}$ ), among each other ( $r_{ij}$ ), and in couples (total) using the priciples of the smallest squares:

$$\underline{\mathbf{R}}_{\mathbf{x}} = \begin{matrix} & \mathbf{Y} & \mathbf{X}_1 & \mathbf{X}_2 & \mathbf{X}_3 \\ \mathbf{Y} & \left[ \begin{array}{cccc} 1,0000 & -0,2064 & 0,7241 & 0,5822 \\ & 1,0000 & 0,1844 & 0,3750 \\ & & 1,0000 & 0,5127 \\ & & & 1,0000 \end{array} \right. \\ \mathbf{X}_1 & \\ \mathbf{X}_2 & \\ \mathbf{X}_3 & \end{matrix}$$

We have arrived at interesting statements taking into consideration the coefficients. The willingness of getting additional income is very weak and the relationship is negative with the regular income but the relation with the household expenses is better than the medium and its relationship with the level of indebtedness is very strong. Those who wanted to realise additional income were keen on ensuring their living conditions and it seems they focused on arranging their debts. The stochastic relationships between the factor variables as they are loose or median do not ruin the justification process of our hypothesis but we do not intend to word the generalised conclusions. The sensibleness of the relationships confirms our strive to examine the possibilities of dissolving the factor effects.

To this we emphasized the  $\underline{\mathbf{R}}_x$  matrix and the  $\underline{\mathbf{r}}_{y_i}$  vector and applying the so called Cramer rule we defined the inverse form of the  $\underline{\mathbf{R}}_x$  matrix.

$$\underline{\mathbf{R}}_x = \begin{matrix} X_1 \\ X_2 \\ X_3 \end{matrix} \begin{bmatrix} 1,0000 & 0,1844 & 0,3750 \\ & 1,0000 & 0,5127 \\ & & 1,0000 \end{bmatrix} \text{ és } \underline{r}_{y_i} \begin{bmatrix} -0,2064 \\ 0,7241 \\ 0,5822 \end{bmatrix}$$

$$\underline{R}_x^{-1} = \begin{bmatrix} 1,16378 & 0,01241 & -0,44278 \\ 0,01241 & 1,35676 & -0,70027 \\ -0,44278 & -0,70027 & 1,52510 \end{bmatrix}$$

The  $\underline{R}_x^{-1}$  and the  $\underline{r}_{y_i}$ 's product result is the the vector of the standardised partial regressional variables:

$$b' = \begin{bmatrix} -0,4890 \\ 0,5722 \\ 0,4722 \end{bmatrix}$$

The value of the multiplical determinational variable defined by the scalar product of our two vectors is the following:

$$R^2 = 0,7902$$

which means that with the three variable factors the willingness of getting additional income could be explained in 79.02% and the effect of the accidental and not noted factors is 20.98%.

So the relationship of the four factors is 0.8889 which could be a high value. We got the following proof-function value when we checked its significance by the t-test:

$$F = \frac{0,7902 (2 - 3 - 1)}{(1 - 0,7902) \cdot 3} = 0,3$$

The degree of freedom of the counter is 3 and the degree of freedom of the denominator is 21 so the critical values of the chart:

$$F_{P1} = 4,8 \quad F_{P5} = 3,0$$

So the margin of the R from zero at both level is significant

Using the second diagram and the first table we summarize the distribution of the multiplical determinational variable:

|          |               |         |
|----------|---------------|---------|
| $X_1$    | direct effect | 0,2391  |
| $X_2$    | direct effect | 0,3274  |
| $X_3$    | direct effect | 0,2230  |
| $X_1X_2$ | common effect | -0,1032 |
| $X_1X_3$ | common effect | -0,1732 |
| $X_2X_3$ | common effect | 0,2771  |

$$R^2=0,7902$$

The square of the mistake factor:  $X_E^2=0,2098$

When we are evaluating it, it is practical to detect the changes by variables' effects:

|                      |         |   |        |
|----------------------|---------|---|--------|
| $X_1$ direct effect: | 0,2391  | $\left. \begin{array}{l} (b_1'^2) \\ [b_1'(r_{y1}) \} b_1'] \end{array} \right\}$ | 0,1009 |
| common effect:       | -0,1382 |   |        |
| $X_2$ direct effect: | 0,3274  | $\left. \begin{array}{l} (b_2'^2) \\ [b_2'(r_{y2}) \} b_2'] \end{array} \right\}$ | 0,4143 |
| common effect:       | 0,0869  |   |        |
| $X_3$ direct effect: | 0,2230  | $\left. \begin{array}{l} (b_3'^2) \\ [b_3'(r_{y3}) \} b_3'] \end{array} \right\}$ | 0,2750 |
| common effect:       | 0,0520  |   |        |

From the total effect (79.02%) the biggest is the effect of the indebtedness to the extra income and it also concerns the direct as well as the common effects.

As long as the regular income weakens, the total effect of the factor the household expenses bond is raising. The  $X_2$  factor results the 52.4% of the explained effects. The second biggest weighted factor is the household expenses with its 34.8% proportion and inside this the direct effect is more determinative. We estimated the motivating effect of the regular income 12.8% the common effect of which is negative.

The significancy test of the effect to the result of the factor variables resulted in the following proof-function values:

$$t_1 = -4,53 \qquad t_2 = 4,91 \qquad t_3 = 3,82$$

The critical value at 21 degree of freedom:  $t_{p1\%} = 2,83$   
 $t_{p5\%} = 2,08$

Confronting the values of the proof function and the critical values we can determine that all of the result factors variables' effect to the result is significant.

To dissolve the regressional effects of the factor variables we made the destandardization so we determined the values of the partial regressional coefficients.

$$\underline{b} = \begin{bmatrix} -1,0079 \\ 2,8985 \\ 1,5739 \end{bmatrix}$$

The constant of the linear function:  $b_0 = 4,7998$

So the equation of the linear regressional function containing four variables is the following:

$$\hat{Y} = 4,7998 - 1,0079X_1 + 2,8985X_2 + 1,5739X_3$$

The square of the regressional error scatter: 6,68  
 The relative error of the regression: 11,75%

The values of the partial coefficients show that when the household's income per capita is higher by one thousand forints, at the same indebtedness level and the same household's expenses and their additional income is smaller by

1008 forints. At the same time it is higher by 1000 forints in case of indebtedness; the additional income shows 2899 surplus and it is the same in case of 1000 forints higher household expenses – supposing the other factors are the same – the additional income is higher by 1574 forints. These indices reflect the partial regressional effects of the factor variables.

To demonstrate the direct and indirect effects we summarize all of the results which we got as a regressional coefficient.

$$\begin{array}{llll}
 b_{y_1} = -0,4254 & b_{1_2} = 0,4533 & b_{2_3} = 0,3373 & b_{y_{1-23}} = -1,0079 \\
 b_{y_2} = 3,6670 & b_{1_3} = 0,6065 & b_{3_1} = 0,8319 & b_{y_{2-13}} = 2,8985 \\
 b_{y_3} = 1,9407 & b_{2_1} = 0,0750 & b_{3_2} = 0,7791 & b_{y_{3-12}} = 1,5739
 \end{array}$$

According to the courses of the third and the second chart, the direct and indirect effects inside the regressional coefficients are as follows:

**1) Y in the regression of X<sub>1</sub>:**

$$\begin{array}{ll}
 X_1 \text{ direct effect:} & -1,0079 \\
 X_2 \text{ indirect effect:} & 0,2174 \\
 X_3 \text{ indirect effect:} & 0,3650 \\
 \Sigma & -0,4255
 \end{array}$$

**2) Y in the regression of X<sub>2</sub>:**

$$\begin{array}{ll}
 X_2 \text{ direct effect:} & 2,8985 \\
 X_1 \text{ indirect effect:} & -0,4569 \\
 X_3 \text{ indirect effect:} & 1,2262 \\
 \Sigma & 3,6678
 \end{array}$$

**3) Y in the regression of X<sub>3</sub>:**

$$\begin{array}{ll}
 X_3 \text{ direct effect:} & 1,5739 \\
 X_1 \text{ indirect effect:} & -0,6113 \\
 X_2 \text{ indirect effect:} & 0,9777 \\
 \Sigma & 1,9403
 \end{array}$$

The separation of the direct and indirect effects of the factor variables shows that the monthly regular income per capita blunted the emergence of the direct effect of the willingness of getting additional income the other two factors influencing role.

At the same time, the direct effect to the other two factors is also negative. Contrarily, the indebtedness and the expenses paying duties resulted in willingness in acquiring additional income directly and also indirectly in positive way at both factors. The positive influence of the indirect effect was bigger than the negative influence of the regular income. This is the resultant that at both factors ( $X_2$  and  $X_3$ ) but finally also at the first factor ( $X_1$ ) the total effect is bigger thanks to the direct effect.

### **Conclusions**

During the evaluation process of the multiple linear correlation and regression analization it can be easily contrived that when the total independency of the coefficient variables is not ensured we could have problems during composition of the conclusions. In case the relationship thightness between the coefficient variables does not reach the value of the multiplical correlation, the results can be used in practice but we should pay attention to the fact that depending on the strength of relationship thightness, not only directly but indirectly, they effect by other variables. To study and introduce this – using the bibliographic experience – we made up the complex effect figure of the multiplical stochastic relationship and following its path – knowing the theoretical relationship – we could separate the direct and indirect common variable effects represented in the total correlation and regression and the common determination and we could make the preparation of the decision-making process exact with additional information.

The appropriate method was introduced via an observation which covered 25 rural households and we determined that the separation of multiplical determinational coefficient and also the total regressional coefficients dissolved by efficiencies show the effect action on the results in a much more realistical way.

The information also could be useful when we are making decisions about additional expenditures. They also call our attention to which variable it's worth to focus and where we should deal with the scalling. On the whole our assay results confirmed the correctness of our hypotheses formulated in the second part.

### **Abstract**

Analyzing the multiplical – stochastic – coherence of linear relationship it can be generally observed that the coefficient variables show relationship to a certain extent. In case this thightness does not reach the value of the multiplical correlation, the assey results can be applied in practice on the understanding that we have to analyze further its factor effects. We also have to separate the direct and indirect common effects. The study deals with one theotical question of this problem and in order to test it, 25 data of rural households is used.

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ZOLTÁN SZAKÁL

## Marketing and tourism analysis of the wine specialities of the Tokaj wine region

Keywords: wine marketing, tourism, research, dessert wine, consumers

Hungary's most important wine region is Tokaj-Hegyalja. The Tokaj Wine Specialities prepared here are unique in the whole world. Tokaj Wine Specialities have several competitors, which are similar "noble sweet" wines. The competing countries that are able to prepare such products: Austria, France, Germany, Canada, USA, Australia, South-Africa and Slovakia. Tokaj Wine Specialities belong to the dessert wine category, so many other dessert wines are considered as competitors, too. Owing to their sweet taste, they are not suitable for consumption in large quantity. Their value is their specificity. We cannot produce them in large quantity, but, besides satisfying the domestic market, we also produce for export. During the decades preceding the change of the regime in 1989/90, the brand "Tokaj" lost credit. However, in the past 15 years, thanks to the excellent marketing activity of some wineries, Tokaj Wine Specialities have started to improve again. The co-operation between the characters of the wine districts has not been realised entirely yet.

During the doctoral research work, I assessed the consumer habits regarding Tokaj Wine Specialities, and I studied the marketing strategy of the producer's side. The researches were carried out in Hungary and Austria. I performed

the factor analysis and the cluster analysis related to the consumer research. During the research work, I applied both questionnaire and online market research, and obtained information through in-depth inquiries.

In the Hungarian sample (n=1179), 5 well-distinguishable clusters could be defined:

- Cluster 1: “Survivors” having a low income;
- Cluster 2: “Wise middle-ward” having a normal income;
- Cluster 3: “New generation” having a normal income;
- Cluster 4: “The wine-adept rich” having a high income;
- Cluster 5: “The rich elite” having a high income.

Typically, all the 5 clusters think in price intervals, which is proportionate to the family’s monthly net income. People who are adept in wine more than the average rather take into consideration the price-value ratio – they are ready to buy even a cheaper wine. The first two clusters are price-sensitive. Most Tokaj Wine Specialities are purchased at hypermarkets, mainly by women. Tokaj Wine Specialities are generally bought for birthdays, name-days and Christmas. The changes in consumer income modify the minimum and maximum value of price intervals. Price increase reduces the risk of purchasing Tokaj Wine Specialities. I have supported the findings of the cluster analysis with focus group surveys.

Some 60% of the Viennese wine consumers interviewed in Austria do not know Tokaj Wine Specialities. The main reason for not purchasing Tokaj Wine Specialities is that they do not know them, they do not like the taste, and prefer the Austrian “Auslese” type wines (which are similar to Tokaj Wine Specialities). The respondents who know Tokaj Wine Specialities purchase a small amount 1–2 times annually. The Austrians more frequently go to the HORECA sector, usually their income and life standard are higher. According to the Austrian sample (n=107), three main segments could be distinguished:

- Respondents with a low income;
- “Wine adepts”;
- Visual consumers (both with a lower and a high income).

The Austrian wineries could adapt to the consumer and market demands to a greater extent. The proportion of locally sold wines is higher, which is accompanied with other tourism services of a far higher standard, too. This development can be observed at Tokaj-Hegyalja, too, although in a slow pace for the time being. The Community wine marketing that operates well on the Austrian side already makes its effect felt at the wineries. In Hungary this organisation has already been set up, but has not started to operate up to present.

**The study of the defined hypotheses has been closed with the following findings:**

**H1: Method relevance.** The practical applicability of the cluster analysis may be verified by subsequent focus group tests. Providing a certain frame, the qualitative procedures preceding the research and the latter-mentioned procedure underlie the realistic results. **DEFENDABLE**

**H2 Integrability of regional researches I.** The wine consumption and wine purchasing habits of Budapest and North-Alföld Region are different concerning Tokaj Wine Specialities. **REFUTABLE.**

**H3 Integrability of regional researches II.** The Viennese consumption customs will considerably differ from the findings of Hungarian surveys, owing to the efficiency of income and Community marketing work. **DEFENDABLE.**

**H4 Studies of interrelations.** The purchasing of Tokaj Wine Specialities is in relation to the age, sex, income, educational background, and the meeting of special, wine-related material of knowledge. **DEFENDABLE**

**H5 Inclination to determine the price.** There is no difference between the consumers' actual and the admitted internal reference price. During purchasing, the price is the most important aspect, where there is no difference between the admitted and the actual reference price. **REFUTABLE**

**H6 Market segmentation.** Both the Hungarian and the Austrian consumer samples are fit for segmenting. Therefore, there are criteria that make the creating of a target group possible. **DEFENDABLE**

**H7 Producer's differences.** The Burgenland wineries apply a different marketing strategy, which is more effective than the Hungarian ones. They know their target groups and the market better, so they can apply more effective marketing means. **DEFENDABLE**

**H8 Wine trade.** In Tokaj-Hegyalja and Burgenland different wine commercial structures and sales channel policy structures have taken shape regarding the market of the dessert wines under study. **DEFENDABLE**

The conclusions can be summarised as follows:

1. Consumers know their way about wine supply with difficulty.
2. As for the members of Tokaj wines, only Szamorodni and Aszús are known. They are consumed relatively rarely.
3. The popularity of the "late vintage" products follows that consumers do not like too sweet wines. Their demand is satisfied by Tokaj Wine Specialities available at 1,000–1,500 forints.
4. The current position of Tokaj Wine Specialities in gastronomy and culture makes their frequent consumption difficult.
5. Wine is a confidential product. The attitude of a wine already tasted, the positive feeling of satisfaction and/or memory, as well as the (perhaps opinion-shaping) recommendation of an influential person (group) are determinant when

purchasing wine. The price appears in the form of price interval as some kind of a filter, which is in correlation with the family's total monthly net income.

6. The set of consumers of Wine Specialities can be segmented, divided into well-separable target groups on both the Hungarian and the Austrian market under survey. Therefore, the segment-specific marketing-mixes can be elaborated, which largely improves efficiency, too.

7. The level of Hungarian wine culture is relatively low, but it is on a developmental path. Consequently, associations improving wine culture should be supported, formed.

8. The tourism developments of the given region would considerably promote the popularity of consumption on site. Conscious investments would enhance the weight of sale on site on the sales market of Tokaj Wine Specialities.

9. The Austrian example shows that expertness in wine largely affects the sale of Tokaj Wine Specialities and similar products. Higher life standard also favourably influences the turnover of Wine Specialities.

10. Tokaj Wine Specialities are not marketable in Austria, primarily because of the lack of marketing communication.

11. Both the wine district and the national-level Community wine marketing considerably promote wine sales in Austria. However, this cannot be stated for Tokaj-Hegyalja yet, so more efficient marketing work is needed both at national and wine district levels.

12. Sale on site is promoted by the existence and realisation of a local tourism strategy. On the Burgenland side this already operates well, while at Tokaj-Hegyalja we should strive for its efficient operation.

13. The market information of the Tokaj-Hegyalja wineries is sparse, so the wine district organisation of market and marketing researches is necessary. The marketing strategy and the elements of the marketing mix can only be elaborated with relevant market information. This is true at corporate, wine district and national levels, too.

14. At Tokaj-Hegyalja, the composition of export markets is very heterogeneous and adjusts itself to the system of relations of each winery. Presence is not always accompanied with Community marketing support. On the Austrian side the opposite is true, so it can operate in a far more efficient system. The diverse export market results in the consumption and crumbling of the resources, at the expense of efficiency.

15. The bargaining position of wine-producers at Tokaj-Hegyalja is not too good against the trade. Sales channels with far better bargaining positions should be brought into the foreground.

16. The reconsideration, the reform of the sales channel policy would significantly help wineries reach a higher profitability. A fairer distribution of profit in the sales process should be a basic criterion among the participants.

17. Up to the present, no marketing information system of wine district level has been established. Market researches should be elaborated and operated along a more conscious strategy, otherwise no wine district strategy can be developed.

18. The adaptation of the Austrian example stands its ground in this case, too, since the Austrians have recognised these logical correlations, obtaining sufficient research information on the entire wine market in this way.

The suggestions can be summarised as follows:

a) the findings of the cluster analysis should be supported with focus group surveys (back-check);

b) official registering of Tokaj Wine Specialities named “Tokaj late vintage”. Positioning and creating the gastronomic position of these popular Tokaj Wine Specialities;

c) value-oriented regulation of distribution channels of Tokaj Wine Specialities;

d) the establishment and validation of a single wine district Community marketing concept would be necessary and timely;

e) The Austrian case studies in wine marketing should be analysed further. The positive elements should be adapted – naturally, besides the integration of our own ideas;

f) further development of the House of Tokaj Wines merchant house, research and marketing centre, wine district marketing workshop;

g) introduction of a uniform “Wine Culture” subject into higher education;

h) creation of [www.dessertvino.com](http://www.dessertvino.com) homepage for dessert wines; and establishment of a professional “Viniw” system.

To sum it up, it can be stated that Tokaj Wine Specialities are now on a developmental path, but there are a lot of tasks to be done, and the elaboration and implementation of a conscious marketing strategy largely determines the future of this specific market. Co-operation and consensus is essential at Tokaj-Hegy-alja. At the same time, the strategy of the wine district should adapt to the basic principles and activity of the national Community wine marketing.

### **Abstract**

Wine is a noble beverage that certain nations consume and prepare proudly. Viniculture and vinification have traditions. Besides the traditional wine-growing countries, “conquering” wine nations have also appeared on the international wine market. The wines of the “New World” have acquired a market in countries such as France. Globalisation is inevitable in this sector, too. Besides the new market characters, a third “wave” seems to emerge, which is not significant yet, but in 10 years’ time it may be even the largest wine exporter. This country is China, where the import is higher for

the time being, but a process has started, which may result in quality wine production, covering not only the internal consumption but production for export, too.

Hungarian oenology is not in a bad position. We have excellent specialists and our natural endowments are also suitable. The newly established Hungarian Wine Marketing Public Benefit Company, which has not started its operation yet, is the only hope that Community wine marketing can be really effective, and wineries can also experience its positive effect.

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DÓRA KÁRPÁTI BARABÁSNÉ

## The effect of emotional problems on the youth's drug consumption

Keywords: drug use, the youth, emotional problems

### **Some thoughts on the theoretical background of drug consumption**

The psychological theories emphasise the acute stress situations or the total personality development. When we search into the causes affecting the emergence of deviant behaviour in an individual's life, some acute stress situation can in nearly all cases be discovered, like becoming solitude or family conflicts in the case of suicide, or the problems of man-woman relationship among alcoholics.

The reason for this is that deviant individuals "escape" into deviance from the pressure of strains. Regarding suicide, the intention of escape from a situation that seems insoluble is obvious. The motive of unbounded alcohol consumption is also related to the well-known transitional stress and anxiety easing effect of alcohol. Young people consuming drugs join such communities and try drugs to transitionally forget their embarrassing experiences in family or at school. (Andorka, 2003).

With the selected drug or drug combination, the consumer "medicalises" the problem in order to obtain temporary or permanent functional benefits (Bácskai, Gerevich, 2000).

According to adulthood stress theories, the emergence of deviant behaviour is related to a stress situation that an individual could not bear so he/she has “escaped” into the deviant behaviour from it. Such stress may originate from family conflicts, lack of success, etc. It is particularly hard for children to bear these stress situations (Andorka, 1996).

The addiction-related motivation theories generally describe a complex motivation structure (Baker–Brandon–Chassin 2004).

In their model, Wills and Cleary (1995) distinguish four considerable motivation factors in adolescent drug consumption. The emotional borders play a significant role in social motivations. A high risk can be detected particularly among young people who have a low self-esteem, unstable identity and at the same time their social skills are not sufficiently effective.

Stress-relieving, conflict-solving functions may appear from as early as the beginning of trial: they reduce tension momentarily instead of the subjects’ facing the problems.

The third motivation type is self-assertion, by which the drugs increase self-confidence and assertiveness.

The fourth motivation was named fighting against boredom, which means that the seeking of excitement and adventure can be the main motivation in this case (Wills–Cleary, 1995).

According to the indexes concerning the psychosocial status, the consumers of legal drugs usually reject the rules, have the highest risk of depression, the lowest self-esteem and think of self-damaging acts the most frequently. As for the users of illicit drugs, the incidence rate of depression exceeds the average, their self-esteem is low but they are rather characterised by the lack of orientation (Elekes, 2005).

## **Hypothesis**

Objective: Data collection on the emotional problems hiding in the background of drug consumption.

## **Methods**

The Esteeming Interview of Puberty Problem (EuroADAD) was created by the cooperation of researchers and clinical staff. It is such a structured, clinical method for interviewing that might be used at least on three fields, that is in clinical/diagnostical work, program evaluation and research. It is recommended for subjects younger than 25.

It offers valuable bases for us to map the treatment needs of clients between 12–25 years old, so primarily adolescents. The measuring tool helps us standardise the measurement process and plan the treatment, as well as to realise researches focusing on the output of the treatment.

EuroADAD contains seven main problem areas: health status, school, partnership, family, psychological and legal status, alcohol and drug usage. The various problem fields are built in a similar manner. Each field includes questions that allow us to reveal real facts on the adolescents' lives concerning two periods: any time in their lives and in the past 30 days. The balance between the pieces of information on the earlier and the current period provides an insight to the intensity and duration of the problems revealed.

All problem areas are valued according to a given system and weight by the interviewer and the interviewee as well. The interview among normal conditions lasts for 45–60 minutes. The interview is anonymous.

After its validation procedure, EuroADAD was first applied under the name of three specialists, József Gerevich, Erika Bácskai and Sándor Rózsa in Hungary in 2001. This test, aiming to reveal the severity of dependence, is mandatory to use as regulated in a decree, and serves to assess the condition of the patients involved in 'diverting'. Hungary is the sixth country in Europe to apply this method upon the validation. (Gerevich–Bácskai–Rózsa, 2004).

I have studied the possible correlations among the elements under survey with the linear regression analysis. I have considered the consumption of various drugs as dependent variable, and questions on the psychological conditions as independent variable.

The psychological condition reveals the emotional / psychological experience in the past and present. Mental health is observed on the basis of 18 psychological problems (Gerevich–Bácskai–Rózsa, 2004).

I have processed the data with the SPSS (6.1.2.) statistical program package.

## **The Results of the survey**

### **General analysis of the Sample**

My survey is based upon Euroadad interviews taken at the Drug Treatment Department of Nyíregyháza. The sample covers 144 persons. The respondents consist of 15 women and 129 men, 73.6% of whom is over 18, while 26.4% is between 15 and 18.

Employment data: 42.4% of the interviewees go to school and 24.3% have a job. 27.1% have neither a student nor an employment relationship.

Qualification: 18.8% have completed 8 years of primary school, while 29.2% have a secondary-school or vocational degree. Currently 24.9% are secondary-school students, and 7.6% attend post-secondary training.

94% of the interviewees have committed a petty or more severe crime at least once in their lives. Considering the 17 types of crimes listed in the questionnaire, the most typical ones are shoplifting (50.4%) and theft (25.9%). Another

typical crime group is related to driving, including intoxicated driving (26.6%) and the violation of the driving rules (25.2%). Drug sale was present in 16.8% for the purpose of own needs and other luxury expenses. The occurrence figures of graver crimes such as vandalism, burglary, robbery etc. are between 2.1 % and 10.5%.

#### **Some information on the respondents' families**

Considering 95.8% of the sample, the respondents' mother or father is alive. As for the parents' relationship, the parents of 59% of the respondents live together, 31.3% of the interviewees have said their parents are separated or divorced, and only 2.1% have stated that their parents have never lived together. My sample has no data of special significance considering the age of the respondents at the time of the family's breaking-up. The large majority of the young people in a broken family lives together with the mother. Having compared the past year and the last 30 days, I have found no significant difference. 12 of the 144 interviewees have never lived in a family.

48.6% of the respondents have 1 sibling. 27.1% of the interviewees live in a large family, having minimum 2 siblings. The 3–4-member households represent 65.2%, while the co-habitation of 5 or more family members totals 19.4%.

#### **The general description of the interviewees' school background**

The first school-related question is "What do you do?" The interviewees' breakdown by this question is the following: 42.4% of them (61 respondents) go to school, 24.3% (35 respondents) work, 0.7–0.7% (1–1 respondent) attend a special educational program or medical treatment. 1 respondent has been expelled from school, and 4.2% (6 respondents) voluntarily stopped going to school.

As for the young people's school achievements, 20.8% were below the average, 71.5% were average and 4.9% over the average.

14.6% and 11.8% of the sample have already temporarily and permanently intended to stop school, respectively.

7.6% of the respondents stated they needed help with school work.

Absence from school in the past 30 days has showed the following tendency: the most common absence lasts 1–7 days, characterising 23.1% of the sample.

School problems are experienced by 4.9% of the sample to a small extent, 3.5% fairly and 2.8% very seriously.

#### **The respondents' drug consumption habits**

76,9% of those questioned are treated because of drug abuse to avoid criminal prosecution. Only 23,1% of the sample volunteered to be treated and regard themselves as drug addicts.

All of the questioned drink alcohol, 42,4% of them were under 15, 56,3% were between 15–18 and 1,4% were over 18 when they drank alcohol for the first time.

The second most popular drug is marihuana. The first time they started to take it is as follows: 9,7% were under 15, 58,3% were between 15–18, 17,4% were over 18. Another common illicit substance is ecstasy: 0,7% of them tried it under 15, 26,4% was between 15–18, 19,4% tried it over the age of 18. 21 in 144 people had never taken marihuana, 77 people had never tried the so called “party drug”. 113 in 144 people smoke. The number of other drugs is insignificant (sedative, amfetamine, LSD). I have registered 1 intravenous user.

### Psychological problems in the sample

Table 1: Occurrence of psychological problems

| Emotions   | Occurrence |
|--|------------|
| Feeling easily bored                                       | 42%        |
| Feel sad or depressed (low)                                | 43,4%      |
| Feel anxious or worried a lot                              | 20,3%      |
| Feel ashamed of yourself                                   | 18,9%      |
| Things done out of anger that you cannot control           | 15,4%      |
| Feel like injuring or hurting yourself                     | 25,2%      |
| Feel afraid you will hurt someone physically               | 7%         |
| Get crazy ideas in your head                               | 11,2%      |
| Feel like others are against you, or out to get you        | 17,5%      |
| Feel that something is wrong with your mind                | 7%         |
| Feel afraid of losing control of your behaviour or actions | 9,8%       |
| Feel that things are not real                              | 4,9%       |
| Have thoughts of ending your life                          | 11,2%      |
| Have feeling of worthlessness                              | 14%        |
| Feel very self-conscious                                   | 12,6%      |
| Feeling bullied or humiliated by others                    | 7,7%       |
| Taken out easily by little things                          | 22,4%      |
| Feel hopeless about the future                             | 15,4%      |

76.3% are sad, shy or anxious, while the second most important emotional problem is strong impetuosity, aggressiveness, the disability to handle stress, and fear of maladaptive behaviour (47.6%). 42% of boredom represents the extent presumed. The feeling of nothingness and the hopelessness for future (total 29.4%) interconnects mental problems like the lack of self-confidence or life aim,

which without correction may sustain the bad affection in the long run. They are damned to powerlessness, and it is difficult to overcome this situation without the use of drugs. 11.2% have already had suicidal thoughts at least once, which requires treatment (Table 1).

### **The psychological problems and the interviewees' drug consumption**

I studied 18 elements related to the emotional problems.

|  |          |
|--|----------|
| 1. Feel very self-conscious                                      | FELENK   |
| 2. Feel easily bored   | UNALOM   |
| 3. Feel afraid of losing control of your<br>behaviour or actions | VISKONTR |
| 4. Have thoughts of ending your life                             | ELETBEF  |
| 5. Have feelings of worthlessness                                | ERTEKTEL |
| 6. Get crazy ideas in your head                                  | ORULTGON |
| 7. Feel like others are against you, or out to get you           | MASART   |
| 8. Do things out of anger which you cannot control               | INDULAT  |
| 9. Feel afraid you will hurt someone physically                  | BANTFEL  |
| 10. Feel anxious or worried a lot                                | SZORONG  |
| 11. Feeling bullied or humiliated by others                      | MEGALAZ  |
| 12. Feel ashamed of yourself                                     | SZEGYEN  |
| 13. Feel like injuring or hurting yourself                       | SERTETT  |
| 14. Feel that things are not real                                | NEMVALOD |
| 15. Feel hopeless about the future                               | JOVREMEN |
| 16. Feel sad or depressed (low)                                  | SZOMORU  |
| 17. Feel that something is wrong with your mind                  | BAJAGY   |
| 18. Taken out easily by little things                            | KISDOLOG |

1 of the 18 psychological problems, namely “even pittance upset me” was significant with none of the drugs (Table 2).

The following emotional problems showed a correlation with all the drugs: strong shyness and boredom.

Young consumers of spirits of the legal drugs and users of party drugs of the illegal drugs had considerable emotional problems. The use of marijuana and amphetamine represents mainly the same weight.

I found the most psychic reasons motivating consumption behind alcohol consumption, while 10 typical psychic disorders underlay the use of ecstasy.

Table 2: The interrelations of psychological problems and drug consumption

| Psychological problems (p)* | Tranquilisers |       | Amphetami-ne |       | Alcohol |       | Marijuana |       | Party drug |       |
|-----------------------------|---------------|-------|--------------|-------|---------|-------|-----------|-------|------------|-------|
|                             | 1             | 2     | 1            | 2     | 1       | 2     | 1         | 2     | 1          | 2     |
|                             | FELENK        | –     | ,0104        | ,0057 | –       | ,0803 | ,0405     | ,0694 | ,0577      | ,0056 |
| UNALOM                      | ,0657         | –     | ,0871        | –     | –       | ,0908 | ,0647     | –     | ,0212      | –     |
| VISKONTR                    | ,0746         | ,0861 | ,0552        | –     | –       | –     | –         | ,0135 | –          | –     |
| ELETBEF                     | ,0003         | –     | ,0867        | ,0434 | –       | –     | –         | –     | –          | ,0542 |
| ERTEKTEL                    | ,0096         | ,0014 | –            | –     | ,0077   | ,0054 | –         | –     | –          | –     |
| ORULTGON                    | –             | ,0000 | –            | –     | ,0744   | ,0099 | –         | –     | –          | –     |
| MASART                      | –             | ,0053 | –            | ,0604 | –       | ,0251 | –         | –     | –          | –     |
| INDULAT                     | –             | –     | –            | –     | ,0005   | ,0350 | ,0264     | ,0112 | –          | –     |
| BANTFEL                     | –             | –     | ,0208        | –     | –       | –     | ,0476     | –     | ,0099      | ,0323 |
| SZORONG                     | –             | –     | –            | –     | –       | –     | –         | ,0119 | ,0634      | ,0577 |
| MEGALAZ                     | –             | –     | ,0111        | –     | ,0059   | ,0059 | –         | ,0866 | ,0414      | –     |
| SZEGYEN                     | –             | –     | ,0007        | ,0629 | ,0952   | ,0315 | –         | –     | ,0000      | –     |
| SERTETT                     | –             | –     | –            | –     | ,0091   | ,0135 | –         | –     | –          | ,0189 |
| NEMVALOD                    | –             | –     | –            | –     | ,0170   | –     | –         | –     | –          | –     |
| JOVREMEN                    | –             | –     | –            | –     | ,0124   | ,0618 | –         | –     | ,0619      | –     |
| SZOMORU                     | –             | –     | –            | –     | –       | ,0566 | –         | –     | –          | –     |
| BAJAGY                      | –             | –     | –            | –     | –       | –     | –         | –     | –          | ,0064 |

\* significant if p&lt;0.05

1 = the frequency of drug consumption in the past 30 days

2 = maximum drug consumption in one given month

### **The correlation of emotional problems and the 3 groups of young drug consumers**

Each young person appearing at the polyclinic has already tried or regularly uses legal or illegal drugs.

I have divided the young people into 3 groups by drug consumption:

- triers, who have consumed drugs maximum 1–4 times in a month,
- problematic drug consumers, who have consumed licit or illicit drugs 5–15 times in a month, addicts, who have used drugs over 15 times in a month.

The 3 groups of drug-consuming young people, n=144

|                          | Alcohol                | Tranquili-<br>sers    | Marijuana              | Party<br>drugs         | Amphe-<br>tamine       |
|--------------------------|------------------------|-----------------------|------------------------|------------------------|------------------------|
| Occasional<br>consumers  | 80<br>persons<br>55.6% | 8 persons<br>5.6%     | 60<br>persons<br>41.7% | 43<br>persons<br>29.9% | 29<br>persons<br>20.1% |
| Problematic<br>consumers | 46<br>persons<br>31.9% | 7<br>persons<br>4.9%  | 31<br>persons<br>21.5% | 16<br>persons<br>11.1% | 15<br>persons<br>10.4% |
| Addicts                  | 15<br>persons<br>10.4% | 5<br>persons<br>3.5%  | 32<br>persons<br>22.2% | 6<br>persons<br>4.2%   | 4<br>persons<br>2.8%   |
| Not used                 | 3<br>persons<br>2.1%   | 124<br>persons<br>86% | 21<br>persons<br>14.6% | 65<br>persons<br>54.8% | 95<br>persons<br>33.3% |

The proportion of occasional consumers (experimenters, recreating respondents) is considerably higher for all drugs than that of the problematic but non-addicted consumers. At the same time, the proportion of problematic but non-addicted consumers is considerably higher than that of the addicted users. The relation of occasional consumers – problematic users – addicts can be illustrated with a funnel narrowing in the direction of the latter group (Kelemen, 2001).

Table 3: The correlation of psychological problems and the 3 groups of young drug consumers

| Psychological problems (p)* | Marijuana |       |       | Alcohol |       |       | Tranquilisers |       |       | Amphetamine |   |       | Party drugs |       |       |
|-----------------------------|-----------|-------|-------|---------|-------|-------|---------------|-------|-------|-------------|---|-------|-------------|-------|-------|
|                             | 1         | 2     | 3     | 1       | 2     | 3     | 1             | 2     | 3     | 1           | 2 | 3     | 1           | 2     | 3     |
| FELENK                      | .0377     |       | .0926 |         |       |       | .0137         | .0245 | .0000 | -           |   | .0833 | -           | .0321 |       |
| UNALOM                      |           |       |       |         |       |       |               |       |       | -           |   |       | -           | .0587 |       |
| VISKONTR                    | .0240     |       | .0237 | .0686   | .0165 |       |               |       | .0720 | -           |   | .0306 | -           |       |       |
| ELETBEF                     |           |       |       |         | .0063 | .0262 |               | .0068 |       | -           |   | .0872 | -           |       |       |
| ERTEKTEL                    | .0261     |       |       | .0857   |       | .0006 |               |       | .0011 | -           |   |       | -           |       |       |
| ORULIGON                    |           |       | .0842 |         |       | .0090 |               | .0001 | .0008 | -           |   |       | -           |       |       |
| MASART                      |           |       |       |         |       | .0271 |               | .0004 |       | -           |   |       | -           |       |       |
| INDULAT                     | .0052     | .0624 | .0429 |         |       |       |               | .0782 |       | -           |   |       | -           |       | .0363 |
| BANTFEL                     |           | .0443 | .0586 |         |       |       |               |       |       | -           |   | .0717 | .0044       | .0167 | .0000 |
| SZORONG                     |           |       |       |         |       |       |               | .0143 |       | -           |   | .0073 |             | .0008 |       |
| MEGALAZ                     | .0417     |       | .0577 | .0155   | .0051 |       |               |       |       | -           |   |       | -           |       |       |
| SZEGYEN                     |           |       |       |         |       | .0608 |               |       |       | -           |   | .0051 | -           |       |       |
| SERTETT                     | .0789     |       |       |         | .0148 |       |               |       |       | -           |   | .0039 | -           | .0636 |       |
| NEMVALOD                    |           |       |       |         |       |       |               | .0008 |       | -           |   |       | -           |       |       |
| JOVREMEN                    | .0360     |       |       |         |       | .0111 |               |       |       | -           |   |       | -           |       |       |
| SZOMORU                     |           |       |       |         |       | .0650 |               |       |       | -           |   |       | -           | .0670 |       |
| BAJAGY                      |           |       | .0330 |         |       |       | .0077         | .0485 |       | -           |   |       | -           |       | .0099 |
| KISDOLOG                    |           |       |       |         |       | .0225 |               |       |       | -           |   |       | -           |       |       |

\* significant if p<0.05  
 1= Occasional consumers  
 2= Problematic consumers  
 3= Addicts

Table 3 clearly demonstrates that drug consumption is characterised by the dominance of emotional problems. 5 typical mental disorders hide in the background of drug consumption: the feeling of unworthiness, shyness, the underdevelopment of anger controlling abilities, the fear of physical abuse, and startlingly the thoughts related to ending their lives.

The comparison of the data has confirmed my hypothesis that there are differences within the total population under study between young addicts who can rather be qualified as occasional consumers and who have been using hallucinogens for a longer period with relatively larger regularity.

The incidence of emotional problems is less typical of occasional consumers, except for the young people using marijuana.

The weight of emotional problems hiding behind problematic consumption is outstanding.

Nevertheless, it is surprising that there are only two emotional problems in the background of problematic marijuana consumption.

The alcohol and marijuana –addicts struggle with considerable emotional problems. There is a relationship with a half of the mental problems under study. This can suggest that the most serious problem is represented by alcohol and marijuana addicts in my sample.

I have revealed the most psychic causes motivating consumption in the case of problematic sedative medication.

To sum it up, we can state that emotional problems are related to legal and illicit drug consumption.

Most emotional problems have occurred among the problematic and addict respondents.

#### **Abstract**

This study briefly outlines the emotional problems hiding behind drug consumption. I suppose that the disorder of emotional life can promote drug consumption. In my research I apply the Eurodad questionnaire. The sample covered 144 interviewees, 76.9% of whom were “diverted” from jurisdiction. The other respondents volunteered for the therapy. I processed the data with the SPSS statistical program package. There are 5 typical mental disorders behind drug consumption: the feeling of unworthiness, shyness, the underdevelopment of anger controlling abilities, the fear of physical abuse, and startlingly thoughts related to ending their lives. The comparison of the data has confirmed my hypothesis that there are differences within the total population under study between young addicts who can rather be qualified as occasional consumers and who have been using hallucinogens for a longer period with relatively larger regularity.

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